Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2004

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION

Letter of Transmittal 2
Certificate of Achievement for Excellence in Financial Reporting 6
Organizational Chart - State of Oregon 7
Principal State Officials 8

FINANCIAL SECTION

Independent Auditor's Report 10
Management's Discussion and Analysis 12

Basic Financial Statements

Government-wide Financial Statements:
- Statement of Net Assets 24
- Statement of Activities 26

Fund Financial Statements:
- Balance Sheet – Governmental Funds 28
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 31
- Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 32
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 35
- Balance Sheet – Proprietary Funds 36
- Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds 40
- Statement of Cash Flows – Proprietary Funds 42
- Statement of Fiduciary Net Assets – Fiduciary Funds 46
- Statement of Changes in Fiduciary Net Assets – Fiduciary Funds 47

Discretely Presented Component Unit Financial Statements:
- Combining Balance Sheet – Discretely Presented Component Units 49
- Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Discretely Presented Component Units 50

Notes to the Financial Statements 52
1. Summary of Significant Accounting Policies 52
2. Deposits and Investments 57
3. Receivables and Payables 61
4. Joint Venture 64
5. Capital Assets 65
6. Leases 68
7. Donor-restricted Endowments 70
8. Short-term Debt 70
9. Long-term Liabilities 70
10. Interfund Transactions 80
11. Segment Information 82
12. Employee Retirement Plans 84
13. Other Postemployment Benefits 85
14. Deferred Compensation Plans 86
15. Risk Financing 86

Page

16. Discounts and Allowances in Proprietary Funds 88
17. Prior Period Adjustments 89
18. Commitments 89
19. Contingencies 90
20. Subsequent Events 91
21. Special Items 93
22. Change in Accounting Principles 93

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary (Non-GAAP) Basis – All Budgeted Appropriated Funds 96
Notes to Required Supplementary Information 100
1. Stewardship, Compliance, and Accountability 100
2. Budgetary Basis to GAAP Basis Reconciliation 102

Combining Fund Financial Statements

Combining Balance Sheet – Nonmajor Governmental Funds 106

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds 110

Combining Balance Sheet – Nonmajor Enterprise Funds 116

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds 118

Combining Statement of Cash Flows – Nonmajor Enterprise Funds 120

Combining Balance Sheet – Internal Service Funds 126

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds 128

Combining Statement of Cash Flows – Internal Service Funds 130

Combining Statement of Fiduciary Net Assets – Pension Trust Funds 136

Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds 138

Combining Statement of Fiduciary Net Assets – Private Purpose Trust Funds 140

Combining Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Funds 141

Combining Statement of Changes in Assets and Liabilities – Agency Funds 142

STATISTICAL SECTION

Schedule 1 - General Governmental Revenues by Source, Expenditures by Function, and Other Financing Sources and Uses 144
Schedule 2 - Net General Obligation Debt Per Capita 146
Schedule 3 - Legal Debt Margin 147
Schedule 4 - Revenue Bond Coverage 148
Schedule 5 - Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures 149
Schedule 6 - Oregon's Ten Largest Private Employers 150
Schedule 7 - Comparative Population Growth 151
Schedule 8 - Comparative Per Capita Income 152
Schedule 9 - Comparative Employment and Unemployment Rates 153
Schedule 10 - Oregon Exports to the World 154
Schedule 11 - Miscellaneous Statistics 155

Introductory Section

Oregon
Theodore R. Kulongoski, Governor

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December 10, 2004

The Honorable Theodore R. Kulongoski
Governor of the State of Oregon

Citizens of Oregon

We are pleased to provide you with the Comprehensive Annual Financial Report of the State of Oregon for the year ended June 30, 2004, in accordance with Oregon Revised Statute 291.040. The financial statements included in this report are presented in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA).

This report consists of management's representations concerning the finances of the State of Oregon. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework. The framework is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe the information presented is accurate in all material respects.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the State's financial statements for the year ending June 30, 2004. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The auditors tested evidence supporting the amounts and disclosures in the financial statements, assessed the accounting principles used and the significant estimates made, and evaluated the overall presentation of the financial statements. Based on the audit, the auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for fiscal year 2004 are fairly presented in accordance with GAAP. Their audit report is the first component in the financial section of this report.

The audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the needs of federal agencies that provide aid to the State. The standards governing single audit engagements require the auditor to report on the State's internal controls and compliance with legal requirements, particularly as they relate to federal awards. These reports, also prepared by the Audits Division, will be available in a separately issued report on or about February 28, 2005.

Generally accepted accounting principles require us to provide a clear and objective narrative analysis of the State's financial activities to accompany the basic financial statements. This narrative, entitled Management's Discussion and Analysis (MD&A), follows the independent auditor's report in the financial section of this report. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of the Government

The State provides services to Oregon's citizens through a wide range of programs including education, human resources, public safety, economic and community development, natural resources, transportation, consumer and business services, administrative support, legislative, and judicial programs. Oregon's primary government as reported in the accompanying financial statements consists of approximately 100 state agencies. In addition to the primary government, we report three entities as discretely presented component units to emphasize that they are legally separate from the State. A more detailed discussion of the reporting entity can be found in Note 1 to the basic financial statements.

Oregon's Legislature adopts a budget each biennium, which forms the foundation for the State's financial planning and control. Details of the budget process and budgetary monitoring are presented in the notes to the required supplementary information.

Current Economic Conditions

Recent indicators reveal Oregon's economy is continuing to recover from the recession, along with the national economy. With the second quarter of 2004 ushering in the fourth consecutive quarter of job growth, the evidence points to a recovery in the job market. The Employment Department reports that Oregon has regained two-thirds of previously lost jobs as of June of 2004. The most recent Blue Chip Job Growth rankings placed Oregon 2nd in the nation for year over year job growth between June 2003 and June 2004.

Employment growth of 2.6 percent is forecast for the fourth quarter of this year. On a year over year basis, jobs increased in the second quarter of 2004 by 2.2 percent. While these job gains dominated across almost all sectors, the industries posting the highest employment increases on a year over year basis include transportation equipment, construction, and other durable goods.

Future Economic Outlook

In the near term, Oregon's employment growth is expected to be solid, but much slower than the mid 1990s. Although the Oregon economy grew slower than the U.S economy in 1998 through 2003, the U.S. economy is expected to have even slower growth than the growth expected in Oregon in 2004. We expect Oregon's economy to finish 2004 with job gains of 2.0 percent, ending the three year string of job declines. Employment growth of 2.3 percent is expected in 2005, followed by employment growth of 1.9 percent in 2006.

We expect several sectors to post gains in the next year or so, while other industries will likely decline. Professional and business services and health services will see some of the strongest employment growth, with an increase of 6.0 percent for professional and business services and 2.7 percent for health services in 2005. Leisure and hospitality, which includes accommodations and food services, is expected to grow by 2.7 percent in 2004. The construction sector is expected to reverse the decline of 2003 with an employment increase of 5.7 percent in 2004, followed by job gains of 2.7 percent in 2005. Even though rising mortgage rates have dampened residential housing, the stronger economy will likely mitigate this effect. Additional information on specific industries within Oregon is available on the Office of Economic Analysis web site at http://oregon.gov/DAS/OEA/index.shtml.

Employment growth is only one indicator of economic performance; there are many other factors to consider. For example, changes in personal income as well as wage and salary growth are reflective of ongoing economic conditions. We expect the State's personal income to finish 2004 with a rise of 5.6 percent, up from 3.1 percent growth in 2003. Stronger growth of 6.1 percent is expected for personal income in 2005, followed by 6.0 percent growth in 2006. In comparison, personal income for the U.S. will grow 5.8 percent in 2004, 5.7 percent in 2005, and 5.5 percent in 2006. Wage and salary income in Oregon will finish 2004 with growth of 5.4 percent followed by higher growth of 6.7 percent in 2005 and 6.2 percent in 2006.

Unemployment rates and population are also impacted by the changing economy. Oregon began 2004 with an unemployment rate estimated at 7.7 percent, but the rate quickly fell to 6.7 percent in April. The rate then jumped up to 7.4 percent in August and remained essentially unchanged at 7.3 percent in September and 7.2 percent in October. Oregon's unemployment rate remains almost two percentage points above that of the nation. It has been the highest or second highest state rate in the nation every month since July 2001. Oregon's employment improved substantially over the past year, but job growth has slowed in recent months. The state's unemployment rate is likely to remain above that of the nation as the state continues to experience net in-migration and as the state's capital goods manufacturing industries slowly adjust and recover. With the quality of life we enjoy, Oregon is still attracting new residents although not as rapidly as during the mid-1990's. As Oregon's economy slowed down, population growth and net migration rates in 2000 through 2003 hit the lowest in over a decade. The state's population will increase from 3.579 million in 2004 to 3.665 million in 2006, with an annual growth rate ranging from 1.1 to 1.2 percent.

The changing demographics in Oregon will continue to influence the type of services that citizens need their State government to provide. During the period 2004 through 2007, the fastest growth will occur in the 45-64 year olds and the 65 and over age group. This is due to the continued entry of the baby boom generation entering the 45-54 age group and increasingly higher number of cohorts reaching the retirement age. Within

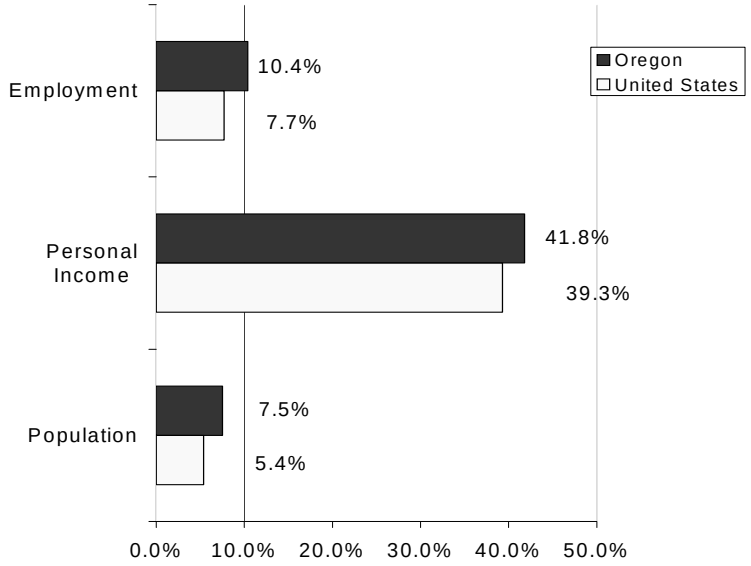
the elderly population of those 65 and older, the greatest increase will occur in the 85 and older age group. This will provide a significant challenge to Oregonians in determining how to care for our aging citizens. The slower growth in 18-24 year olds expected during 2004 through 2007 will ease the pressure on public spending on college education.

There are several risks now facing the Oregon economy. Primary risks include the uncertain impact of the transition out of war, a further major stock market correction, rising energy prices, and slower than expected recovery for semiconductors, software, and communications. If the stock market experienced another major correction, this could further slow already dampened consumer spending which is the main driving force in the economy. An additional risk to Oregon's economy is possible state and local government budget shortfalls. To the extent that spending cutbacks affect education and public infrastructure, Oregon could suffer longer-term impacts. Legislative reforms to the Public Employees Retirement System could be overturned in the courts, which may result in state and local governments needing to increase taxes, reduce services, and/or increase bond financing to cover potential unfunded pension liabilities.

In summary, Oregon's economy is continuing to show signs of recovering from the recession, although the strength and speed of the recovery will be relatively mild in the next year or so. Employment growth is expected to be solid during the upcoming year, with modest growth projected for the next several years, beginning in 2005. The strength of personal income and consumer confidence will also have a significant impact on Oregon's economic recovery.

Oregon's employment, personal income and population growth are all expected to exceed the national average for the six-year period between 2004 and 2010, as shown by the chart below.

Comparison of Long-Term Forecasts
Oregon and United States Expected Growth from 2004 to 2010



Awards

The Government Finance Officers Association of the United States and Canada (GFOA) sponsors the Certificate of Achievement for Excellence in Financial Reporting. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. GFOA awarded the Certificate of Achievement to the State of Oregon for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003.

To earn a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is only valid for a period of one year. The State of Oregon has received a Certificate of Achievement for each of the last twelve years. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate. We are committed to this effort and intend to maintain a highly qualified and professional staff to make Oregon's certification possible in the future.

Acknowledgements

The State Controller's Division takes great pride in the preparation of the Oregon Comprehensive Annual Financial Report. We greatly appreciate the professionalism, commitment, and effort of Statewide Accounting and Reporting Services and the other individuals involved. We also want to thank all state agencies for their continuing support in planning and conducting the financial operations of the State in a professionally responsible and progressive manner. Without the participation and cooperation of the agencies' fiscal units, the preparation of this report would not have been possible. In addition, we appreciate the contributions of the Office of Economic Analysis, the Budget and Management Division, the Oregon State Treasury, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

John J. Radford, Administrator
State Controller’s Division
State of Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

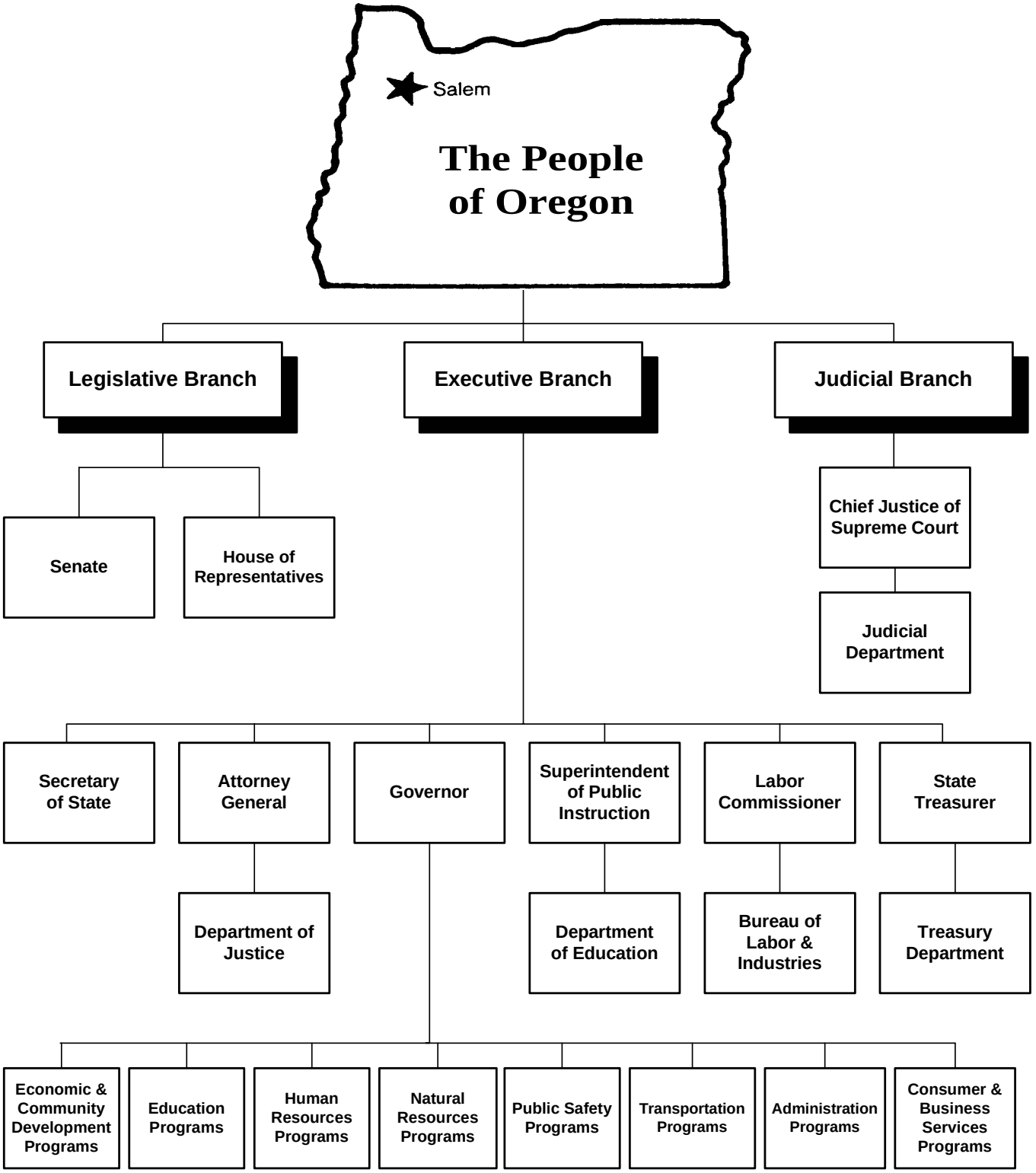
Nancy L. Zielke

President

Jeffrey L. Esser

Executive Director

STATE OF OREGON ORGANIZATION CHART



Principal State Officials

EXECUTIVE

Theodore R. Kulongoski, *Governor*

Bill Bradbury, *Secretary of State*

Randall Edwards, *State Treasurer*

Hardy Myers, *Attorney General*

Dan Gardner, *Commissioner, Labor and Industries*

Susan Castillo, *Superintendent of Public Instruction*

LEGISLATIVE

Peter Courtney, *Senate President*

Karen Minnis, *Speaker of the House of Representatives*

JUDICIAL

Wallace P. Carson, Jr., *Chief Justice of the Supreme Court*

"To Serve Our Public Well"
Mission of Oregon State Service

Financial Section

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Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
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Salem, Oregon 97310-4047

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of and for the year ended June 30, 2004, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units or the University System, which represents 27 percent and 33 percent, respectively, of the assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units and the University System, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also issue our report dated December 28, 2004, on our consideration of the State of Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 12 through 21 and budgetary comparison information on pages 95 through 102 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The introductory section, combining fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

December 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State's comprehensive annual financial report presents our discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2004. This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

We encourage readers to consider the information presented in this analysis in conjunction with the transmittal letter beginning on page 2 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $11.0 billion (net assets). Of this amount, a deficit of $1.6 billion is unrestricted net assets, while $2.6 billion is restricted for specific uses.

- The State's total net assets decreased by $2.6 billion as a result of the year's operations. The decrease in net assets for governmental activities is 24.2 percent of total net assets, while the increase in net assets for business-type activities is 0.5 percent of total net assets.

- As of the close of the most recent fiscal year, the State's governmental funds reported combined ending fund balances of $2.0 billion. Of this amount, 52.6 percent is available for spending at the State's discretion (unreserved, undesignated fund balance).

- At fiscal year end, unreserved fund balance for the General Fund was a deficit of $501.9 million.

- The State's total debt outstanding for bonds and certificates of participation increased by $2.1 billion (34.9 percent) during the fiscal year. This increase is primarily attributed to the issuance of $2.1 billion of general obligation bonds which were issued to finance a significant portion of the State's unfunded actuarial pension liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements, required supplementary information*, and an optional presentation of *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. A *statistical section* is presented following the combining financial statements. The basic financial statements contain three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the State's finances, in a manner similar to a private-sector business. All of the State's activities are reported in the government-wide statements, except for activities accounted for in fiduciary funds because resources of those funds are not available to support the State's own programs.

- The *statement of net assets* presents information on *all* of the State's assets and liabilities, with the difference between the two reported as *net assets*.

- The *statement of activities* presents information showing how the State's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

These two government-wide financial statements report the State's *net assets* and the change in net assets. Net assets, which represent the difference between assets and liabilities, are one measure of the State's financial health, or financial *position*. Over time, increases or decreases in the State's net assets may serve as a useful

indicator of whether its financial position is improving or deteriorating. However, to assess *the overall health* of the State, you need to consider additional non-financial factors such as changes in Oregon's income tax base and changes in Oregon's economy.

The government-wide financial statements of the State are divided into the following three categories:

1. *Governmental activities.* This includes the basic services provided by the State to its citizens, such as K-12 schools and community colleges, public assistance programs, public safety and public transportation. Income taxes and federal grants finance most of these activities. The State's internal service funds, which provide services to other departments or state agencies, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.

2. *Business-type activities.* The State charges fees to customers to help cover the costs of certain services it provides. For example, the State administers loan programs to provide housing to citizens with low incomes and those who are elderly or disabled. The operation of the State's lottery is also reported under business-type activities as well as the Oregon University System, consisting of seven higher education facilities.

3. *Component units.* The State includes three other entities in its report: Oregon Health and Science University, the SAIF Corporation, and the Oregon University System Foundations. Although legally separate, these entities are reported as "component units" either because the State is financially accountable for them or because of the nature and significance of their relationship to the State. Financial information for these component units is reported separately from the financial information of the State itself (known as the *primary government*).

The government-wide financial statements can be found on pages 24-27 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant *funds* (not the State as a whole). Funds are accounting mechanisms the State uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the State uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. Some funds are required by state law (such as the Lottery Operations Fund) or bond covenants. The State establishes other funds to control and manage money for particular purposes (like health and social services) or to show that it is properly using certain taxes and grants (like gas taxes for transportation).

All of the State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. Thus, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the State's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide information following the governmental fund statements that reconciles the government-wide focus to the governmental fund focus.

The State maintains twenty individual governmental funds. Information is presented separately in the governmental fund financial statements for the four major governmental funds, including the general fund. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The basic governmental fund financial statements can be found on pages 28-35 of this report.

Proprietary funds. Services for which the State charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long-term and short-term financial information. The State's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use *internal service funds* (the other type of proprietary fund) to report activities that provide services to the State's other programs and activities (such as the State's Central Services Fund).

The proprietary fund financial statements provide separate information for the State's five major proprietary funds. Data from the other nine proprietary funds are combined into a single, aggregated presentation. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of the nonmajor proprietary funds and for each of the internal service funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 36-45 of this report.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The State is the trustee, or *fiduciary*, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. Fiduciary funds are accounted for in a manner similar to proprietary funds.

All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities have been excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations. The basic fiduciary fund financial statements include the investment trust fund, the agency fund, and aggregated data for the State's pension trust and private purpose trust funds. Individual fund data for each of the pension trust and private purpose trust funds is provided in the form of *combining statements* elsewhere in this report. The basic fiduciary fund financial statements can be found on pages 46-47 of this report.

Discretely Presented Component Units

Combining statements that report activities of the State's component units, the SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations can be found on pages 49-51 of this report. Although activity for component units is reported in the government-wide statements in an aggregate column, the combining statements provide greater detail for each component unit.

Notes to the Financial Statements

The basic financial statements also include *notes,* which provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 52-93 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a section of *required supplementary information* (RSI), beginning on page 94, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds as well as accompanying notes to the RSI.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 103 of this report. These combining statements provide details about our nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, each of which are added together and presented in single columns in the basic financial statements. The combining financial statements also provide details about the fiduciary funds when data has been aggregated in a single column in the basic financial statements.

A statistical section containing selected financial, economic, and demographic information is presented immediately following the combining statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The State's *combined* net assets for fiscal year 2004 were approximately $11.0 billion as shown in Table 1. Most of this balance consists of capital assets (largely infrastructure). Since the State uses its capital assets to provide services to citizens, the amount of net assets invested in capital assets, net of related debt, is not available for future spending.

An additional portion of the State's net assets (23.3 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is a deficit of $1.6 billion.

Table 1
State of Oregon's Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 6,097.5	$ 4,374.3	$ 6,946.6	$ 6,506.5	$ 13,044.1	$ 10,880.8
Capital assets	10,456.3	10,653.9	1,301.5	1,168.0	11,757.8	11,821.9
Total assets	**16,553.8**	**15,028.2**	**8,248.1**	**7,674.5**	**24,801.9**	**22,702.7**
Long-term liabilities	5,429.3	3,265.7	3,198.0	3,536.5	8,627.3	6,802.2
Other liabilities	3,393.2	1,359.4	1,740.2	881.2	5,133.4	2,240.6
Total liabilities	**8,822.5**	**4,625.1**	**4,938.2**	**4,417.7**	**13,760.7**	**9,042.8**
Net assets:						
Invested in capital assets, net of related debt	9,555.7	9,929.0	549.2	579.9	10,104.9	10,508.9
Restricted	334.3	342.8	2,233.5	2,453.3	2,567.8	2,796.1
Unrestricted	(2,158.7)	131.3	527.2	223.6	(1,631.5)	354.9
Total net assets	**$ 7,731.3**	**$ 10,403.1**	**$ 3,309.9**	**$ 3,256.8**	**$ 11,041.2**	**$ 13,659.9**

Changes in net assets. The State's *combined* change in net assets for fiscal year 2004 was a decrease of $2.6 billion as shown in Table 2. This is the amount of change associated with operations for the year. Governmental activities had a decrease in net assets while business-type activities had an increase in net assets. A major factor that contributed to the reduction in governmental activities net assets was the issuance of additional long-term debt, such as $2.1 billion of general obligation bonds which were issued to fund a substantial portion of the State's unfunded actuarial pension liability.

For business-type activities, the increase in net assets was the result of several operations that had an increase in net assets and other operations that had a decrease in net assets. The Other Enterprise Funds had the greatest increase in net assets as a result of transfers from other funds. The largest decrease was in the Unemployment Compensation Fund, where distributions of benefits exceeded employee-employer assessments and other income, as Oregon's economic recession brought about greater numbers of people seeking unemployment benefits combined with the effects of unemployment assessments being paid for fewer workers. The decrease in net assets for governmental activities is 24.2 percent of total net assets, while the increase in net assets for business-type activities is 0.5 percent of total net assets.

Table 2
State of Oregon's Changes in Net Assets
(in millions)

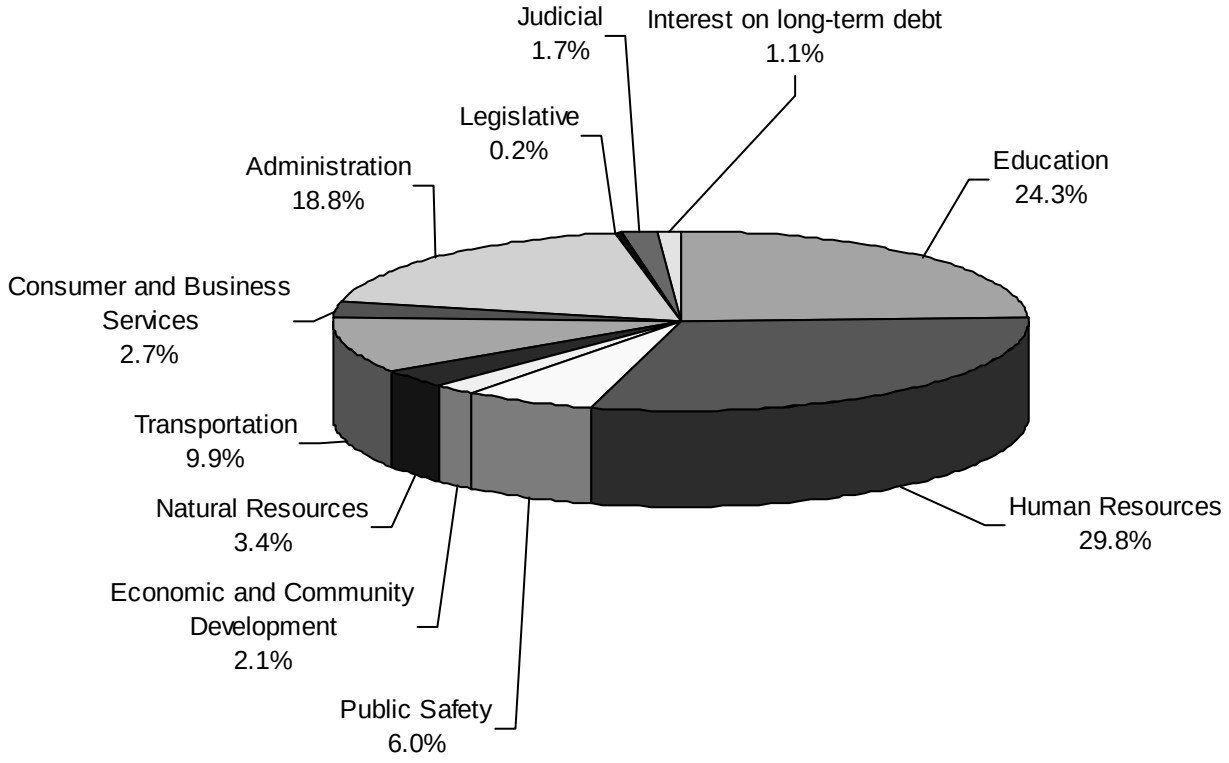
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	$ 1,005.4	$ 1,008.0	$ 2,862.6	$ 2,631.6	$ 3,868.0	$ 3,639.6
Operating grants & contributions	4,378.5	4,452.6	908.6	1,196.9	5,287.1	5,649.5
Capital grants & contributions	5.8	3.4	-	-	5.8	3.4
General revenues:						
Personal income taxes	4,294.4	4,073.3	-	-	4,294.4	4,073.3
Corporate income taxes	314.5	220.2	-	-	314.5	220.2
Other taxes	1,710.9	1,619.3	13.7	13.3	1,724.6	1,632.6
Other	16.2	31.5	22.5	.6	38.7	32.1
Total revenues	**11,725.7**	**11,408.3**	**3,807.4**	**3,842.4**	**15,533.1**	**15,250.7**
Expenses:						
Education	3,485.9	2,915.0	-	-	3,485.9	2,915.0
Human resources	4,276.2	4,348.2	-	-	4,276.2	4,348.2
Public safety	857.6	842.9	-	-	857.6	842.9
Economic & community development	296.5	328.2	-	-	296.5	328.2
Natural resources	488.5	523.9	-	-	488.5	523.9
Transportation	1,410.7	1,417.8	-	-	1,410.7	1,417.8
Consumer and business services	388.3	278.5	-	-	388.3	278.5
Administration	2,693.6	700.6	-	-	2,693.6	700.6
Legislative	25.5	30.7	-	-	25.5	30.7
Judicial	239.8	205.9	-	-	239.8	205.9
Interest on long-term debt	164.5	4.1	-	-	164.5	4.1
Housing and community services	-	-	88.7	93.3	88.7	93.3
Veterans' loan	-	-	59.1	73.7	59.1	73.7
Lottery operations	-	-	494.6	505.0	494.6	505.0
Unemployment compensation	-	-	1,106.0	1,287.6	1,106.0	1,287.6
University system	-	-	1,617.7	1,605.5	1,617.7	1,605.5
Other business-type activities	-	-	442.7	411.5	442.7	411.5
Total expenses	**14,327.1**	**11,595.8**	**3,808.8**	**3,976.6**	**18,135.9**	**15,572.4**
Increase (decrease) before transfers	(2,601.4)	(187.5)	(1.4)	(134.2)	(2,602.8)	(321.7)
Transfers	(44.3)	16.4	44.3	(16.4)	-	-
Increase (decrease) in net assets	**(2,645.7)**	**(171.1)**	**42.9**	**(150.6)**	**(2,602.8)**	**(321.7)**
Net assets – beginning	10,403.1	10,487.4	3,256.8	3,299.7	13,659.9	13,787.1
Cumulative effect of accounting change	-	-	-	204.6	-	204.6
Prior period adjustments	(26.1)	86.8	10.2	(96.9)	(15.9)	(10.1)
Net assets – beginning – as restated	10,377.0	10,574.2	3,267.0	3,407.4	13,644.0	13,981.6
Net assets – ending	**$ 7,731.3**	**$ 10,403.1**	**$ 3,309.9**	**$ 3,256.8**	**$ 11,041.2**	**$ 13,659.9**

Figure 1 below illustrates fiscal year 2004 revenues of the State as a whole, by source. Approximately 34.1 percent comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 29.7 percent of total revenue comes from personal and corporate income taxes and 24.9 percent comes from charges for services provided.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2004

Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest portion of expenses is for human resources to provide for Oregon's citizens in need of assistance at 29.8 percent, with elementary and secondary education a close second at 24.3 percent of total expenses. Typically, the administration function represents approximately five to six percent of total expenses; however, fiscal year 2004 expenses for administration are 18.8 percent. This significant increase is the result of transferring the proceeds from the issuance of $2.1 billion of general obligation bonds to the Pension Trust Fund to finance a substantial portion of the State's unfunded actuarial pension liability. This transfer of resources from a governmental fund to a fiduciary fund is reported as an expense in the government-wide Statement of Activities.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2004



FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State of Oregon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* financial resources. In governmental funds, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2004, approximately 52.6 percent of the total fund balance of governmental funds represents unreserved, undesignated fund balance, which is available for spending on governmental programs at the State's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed. For example, such commitments are to liquidate existing contracts and purchase orders, to pay debt service, or to pay claims and judgments.

At the end of fiscal year 2004, the State's governmental funds reported combined ending fund balances of $2.0 billion, a decrease of $298.0 million in comparison with the prior year. This decrease in fund balances is primarily attributed to the results of operations in the general fund as discussed below.

The general fund is the chief operating fund of the State. The unreserved, undesignated fund balance of the general fund at the end of fiscal year 2004 was a deficit $501.9 million, while total fund balance was a deficit $344.7 million. The deficit unreserved, undesignated fund balance indicates that reservations of fund balance exceed total fund balance. During the fiscal year, spending and obligation of commitments outpaced the accumulation of spendable financial resources, reducing the total fund balance of the general fund by $447.1 million. A major factor that contributed to this reduction was the recognition of a $750.9 million liability for tax anticipation notes. These notes were issued to manage temporary cash flow deficits that occur because the timing of expenditures does not coincide with the timing of the collection of taxes and other revenues.

While revenues of the Health and Social Services fund were approximately equivalent to expenditures, transfers from other funds contributed to an increase in fund balance. The majority of these transfers came from the Employment Services Fund, a nonmajor governmental fund. Transfers from other funds also contributed to an increase in fund balance in the nonmajor governmental funds. Specifically, transfers in the Community Protection Fund came primarily from the Health and Social Services Fund and the Other Special Revenue Funds. Transfers in the Educational Support Fund came primarily from the Business Development Fund, a nonmajor governmental fund.

Proprietary funds. The State's *enterprise funds* provide the same type of information presented for business-type activities in the government-wide financial statements, but in more detail. Total net assets of the Housing and Community Services Fund decreased by $13.9 million from the prior year, as operating expenses exceeded operating income. This is a self-supporting activity, providing loans for housing that are funded through the issuance of bonds. As compared to the previous year, the net assets of the Veterans' Loan Fund decreased by 9.0 percent, while the net assets of the Lottery Operations Fund increased by 13.3 percent. In the Unemployment Compensation Fund, distribution of benefits exceeded employee-employer assessments and other income during the year, as Oregon's economic recession brought about greater numbers of people seeking unemployment benefits combined with the effects of unemployment assessments being paid for fewer workers.

Restrictions and commitments significantly affect the availability of Housing and Community Services Fund resources for future use. For example, net assets that will be used to repay outstanding bonds are restricted for debt service. A significant portion of University System Fund net assets are restricted for capital construction, higher education, debt service, and for purposes stipulated by donors of resources.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the Pension Trust Fund, which accounts for resources held in trust for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the Public Employees Retirement System, increased by $8.3 billion. The net appreciation in fair value of investments and higher employer contributions contributed greatly to this increase in net assets. Employer contributions include a transfer of $2.0 billion from the proceeds of the general obligation bonds issued by the State to fund a significant portion of its unfunded actuarial pension liability. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

The State budgets on a biennial basis rather than an annual basis. As such, final budgeted expenditures for the general fund reflect the Legislatively Approved Budget as of June 30, 2004, for the entire 2003-2005 biennium. Budgeted expenditures as of June 30, 2004 decreased by $483.6 million from original budgeted expenditures reflected in the Legislatively Adopted Budget. This reduction was due largely to the disapproval of Measure 30 by Oregon voters at the February 2004 special election. Ballot Measure 30 would have enacted several temporary and permanent tax increases and changes in order to maintain certain levels of service in public education, senior services, public safety as well as other areas and to avoid budget cuts. On a percentage basis, program areas most impacted by appropriation reductions that resulted from disapproval of Ballot Measure 30 were human resources, which was reduced by 7.1 percent, and education, which was reduced by 4.5 percent. Final estimated revenues decreased by $521.3 million from the original budgeted revenues. This reduction was primarily due to lower income tax revenue projections.

Because of Oregon's biennial budget process, budget to actual comparisons are not final until the second year of the biennium. For the first year of the 2003-2005 biennium, actual expenditures and other financing uses exceeded actual revenue and other financing sources by $846.5 million. Typically, the timing of required expenditures does not coincide with the timing of the collection of taxes and other revenues within a given

biennium. For cash flow management needs resulting from these timing differences, the State issued $741.7 million of tax anticipation notes during the fiscal year. This obligation will be repaid with income tax revenue prior to the end of the biennium. Recent economic indicators and estimated collections of income taxes are expected to have a significant effect on future services. Reductions in available resources to fund governmental programs, particularly funding for elementary and secondary education as well as human resources programs, are likely in the 2005-2007 biennium.

DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises the Governor and the legislative assembly regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. The State's debt credit rating, which is an indication of the State's ability to repay its debt, was downgraded by Standard & Poor's from AA to AA- during the fiscal year.

Debt outstanding for the years ended June 30, 2004 and 2003 is summarized in Table 3 below. The majority of new revenue bonds issued for business-type activities this year were multi-family housing revenue bonds and single-family mortgage revenue bonds. For governmental activities, the majority of new revenue bonds were issued to refund prior issues of lottery revenue bonds to experience savings of debt service costs over time.

During the fiscal year, $2.1 billion of general obligation bonds were issued to fund a significant portion of the State's unfunded actuarial pension liability. General obligation bonds in the amount of $101.1 million were also issued to refund outstanding bonds that were previously issued to finance the cost of buildings and other projects for the Oregon University System. This refinancing was done to take advantage of favorable interest rates. Additional information on the State's long-term debt can be found in Note 9 of this report.

Table 3
State of Oregon's Outstanding Debt
For the Years Ended June 30, 2004 and 2003
(dollars in millions)

			2004 Over (Under) 2003	
	2004	**2003**	**Amount**	**Percent**
General Obligation Bonds	$4,364.5	$2,312.8	$2,051.7	88.7%
General Appropriation Bonds	466.2	470.0	(3.8)	(0.8)%
Revenue Bonds	2,475.1	2,427.6	47.5	2.0%
Certificates of Participation	818.0	811.5	6.5	0.8%
Totals	**$8,123.8**	**$6,021.9**	**$2,101.9**	**34.9%**

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2004, is $11.8 billion (net of accumulated depreciation) as summarized in Table 4. This investment in capital assets includes land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and historical treasures. The total decrease in the State's investment in capital assets for the current fiscal year was 0.5 percent.

Table 4
State of Oregon's Capital Assets, Net of Depreciation
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 1,573.3	$ 1,545.8	$ 56.0	$ 49.8	$ 1,629.3	$ 1,595.6
Buildings, property, and equipment	1,198.4	1,233.9	1,025.6	814.2	2,224.0	2,048.1
Construction in progress	817.2	647.3	144.6	236.1	961.8	883.4
Infrastructure	6,866.8	7,226.3	16.9	8.9	6,883.7	7,235.2
Works of art and historical treasures	.6	.6	58.4	59.0	59.0	59.6
Total	**$ 10,456.3**	**$ 10,653.9**	**$ 1,301.5**	**$ 1,168.0**	**$ 11,757.8**	**$ 11,821.9**

Major capital asset events during the fiscal year included the following:

- The State spent nearly $427.0 million on 915 highway and bridge construction projects
- Nearly $8.0 million was spent on capital equipment used to maintain highways and bridges, such as road graders, bulldozers, and similar vehicles
- Commitments of $588.7 million have been made for highway and bridge construction

Additional information on the State's capital assets can be found in note 5 of this report.

ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET

- The unemployment rate for Oregon is currently 7.2 percent, down from 7.6 percent a year ago. This is higher than the national rate of 5.5 percent.

- Employment growth in the second quarter of 2004 was 2.2 percent, an indication that Oregon's economy is gradually recovering from the recession.

- During the 2003 legislative session, reforms to the Public Employees Retirement System were enacted to reduce the cost to the State for pension benefits. In addition, the issuance of general obligation bonds was authorized to fund a significant portion of the State's unfunded actuarial pension liability, resulting in an estimated $90.0 million of savings during the 2003-2005 biennium.

- The legislature also directed certain state agencies to transfer available resources from other funds to the general fund to help balance the general fund budget for the 2003-2005 biennium. Specified agency transfers total approximately $60.2 million. An additional $36.6 million will be transferred to the general fund from various other funds.

- Subsequent to June 30, 2004, the State issued $787.0 million of tax anticipation notes to meet seasonal cash needs during the remainder of the 2003-2005 biennium, including retiring the tax anticipation notes that were issued during fiscal year 2004.

These factors will likely have an impact on the State's financial position and/or the budget for the 2005-2007 biennium.

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Basic Financial Statements

Statement of Net Assets
June 30, 2004
(In Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 1,826,784	$ 1,827,546	$ 3,654,330	$ 233,416
Cash and Cash Equivalents - Restricted	266	24,573	24,839	-
Investments	247,705	215,982	463,687	3,473,129
Investments - Restricted	93	473,149	473,242	-
Securities Lending Cash Collateral	1,566,329	742,918	2,309,247	471,338
Accounts and Interest Receivable (net)	480,508	393,077	873,585	439,595
Pledges Receivable	-	-	-	50,935
Taxes Receivable	298,482	-	298,482	-
Internal Balances	139,244	(139,244)	-	-
Due from Other Governments	125	9,935	10,060	-
Inventories	71,603	32,062	103,665	16,852
Prepaid Items	4,288	13,469	17,757	10,369
Foreclosed and Deeded Property	-	2,181	2,181	-
Total Current Assets	4,635,427	3,595,648	8,231,075	4,695,634
Noncurrent Assets:				
Cash and Securities Held in Trust	15,568	4	15,572	-
Cash and Cash Equivalents - Restricted	312,909	800,482	1,113,391	-
Investments	-	108,344	108,344	303,424
Investments - Restricted	103,005	553,820	656,825	574,315
Taxes Receivable	378,383	-	378,383	-
Deferred Charges	13,479	17,579	31,058	9,426
Interfund Loans	(3,410)	3,410	-	-
Net Contracts, Notes and Other Receivables	295,380	150,044	445,424	-
Pledges Receivable	-	-	-	57,989
Loans Receivable	346,810	1,717,273	2,064,083	-
Capital Assets:				
Land	1,573,326	55,945	1,629,271	56,641
Buildings, Property and Equipment	1,966,221	2,026,892	3,993,113	1,180,509
Construction in Progress	817,197	144,608	961,805	136,962
Infrastructure	13,922,816	48,665	13,971,481	-
Works of Art and Historical Treasures	610	58,355	58,965	364
Less Accumulated Depreciation and Amortization	(7,823,878)	(1,032,993)	(8,856,871)	(544,940)
Total Noncurrent Assets	11,918,416	4,652,428	16,570,844	1,774,690
Total Assets	16,553,843	8,248,076	24,801,919	6,470,324

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Statement of Net Assets
June 30, 2004
(In Thousands)
(continued from previous page)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Accounts and Interest Payable	$ 504,482	$ 216,782	$ 721,264	$ 209,422
Reserve for Loss and Loss Adjustment Expense	-	-	-	167,328
Obligations Under Securities Lending	1,566,329	742,918	2,309,247	471,338
Due to Other Governments	111,408	7,396	118,804	4,789
Matured Bonds/COPS and Coupons Payable	53	9,623	9,676	-
Obligations Under Capital Lease	32	233	265	543
Obligations Under Life Income Agreements	-	-	-	69,493
Tax Anticipation Notes Payable	750,906	-	750,906	-
Bonds/COPS Payable	116,685	621,522	738,207	6,575
Trust Funds Payable	203,173	30,952	234,125	9,736
Deferred Revenue	32,705	69,711	102,416	230,990
Compensated Absences Payable	107,399	41,098	148,497	34,305
Total Current Liabilities	3,393,172	1,740,235	5,133,407	1,204,519
Noncurrent Liabilities:				
Bonds/COPS Payable	4,243,673	3,081,131	7,324,804	596,744
Obligations Under Capital Lease	15	294	309	4,150
Claims and Judgments Payable	1,183,303	-	1,183,303	2,196,884
Lottery Prize Awards Payable	-	108,344	108,344	-
Arbitrage Rebate Payable	1,152	1,192	2,344	-
Contracts, Mortgages and Notes Payable	1,199	6,454	7,653	46,778
Trust Funds Payable	-	579	579	-
Total Noncurrent Liabilities	5,429,342	3,197,994	8,627,336	2,844,556
Total Liabilities	8,822,514	4,938,229	13,760,743	4,049,075
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	9,555,705	549,148	10,104,853	389,719
Expendable Restricted Net Assets:				
Restricted for Unemployment Compensation	-	1,434,015	1,434,015	-
Restricted for Residential Assistance	152,946	1,548	154,494	-
Restricted for Higher Education	-	169,321	169,321	-
Restricted for Debt Service	-	232,261	232,261	-
Restricted for Capital Construction	340	186,058	186,398	-
Restricted for Transportation	140,848	22,062	162,910	-
Restricted for Public Works Projects	-	31	31	-
Restricted for Workers' Compensation	10	-	10	534,085
Restricted for Education	496	-	496	591,273
Restricted for Natural Resource Programs	28,500	-	28,500	-
Restricted for Public Safety	1,284	-	1,284	-
Restricted for Lottery Projects	-	51,805	51,805	-
Restricted for War Veterans' Programs	-	121,751	121,751	-
Nonexpendable Restricted Net Assets:				
Restricted for Donor Purposes	-	14,682	14,682	387,011
Restricted for Education	875	-	875	108,116
Restricted for Residential Assistance	5,369	-	5,369	-
Restricted for Natural Resource Programs	3,374	-	3,374	-
Restricted for Workers' Compensation	250	-	250	-
Unrestricted	(2,158,668)	527,165	(1,631,503)	411,045
Total Net Assets	$ 7,731,329	$ 3,309,847	$ 11,041,176	$ 2,421,249

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Year Ended June 30, 2004
(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
Education	$ 3,485,891	$ 16,017	$ 497,284	$ -	$ (2,972,590)
Human Resources	4,276,235	139,353	2,690,398	-	(1,446,484)
Public Safety	857,643	138,377	120,494	3,896	(594,876)
Economic and Community Development	296,497	22,560	253,638	-	(20,299)
Natural Resources	488,514	252,952	137,939	604	(97,019)
Transportation	1,410,741	106,598	376,104	1,369	(926,670)
Consumer and Business Services	388,336	152,899	9,740	-	(225,697)
Administration	2,693,591	94,970	291,804	-	(2,306,817)
Legislative	25,480	2,802	6	-	(22,672)
Judicial	239,773	78,870	1,073	-	(159,830)
Interest on Long-term Debt	164,461	-	-	-	(164,461)
Total Governmental Activities	14,327,162	1,005,398	4,378,480	5,869	(8,937,415)
Business-type Activities:					
Housing and Community Services	88,653	70,617	4,819	-	(13,217)
Veterans' Loan	59,106	33,397	13,339	-	(12,370)
Lottery Operations	494,628	892,672	-	-	398,044
Unemployment Compensation	1,106,005	726,680	316,435	-	(62,890)
University System	1,617,687	735,556	570,531	-	(311,600)
Other Business-type Activities	442,676	403,652	3,470	-	(35,554)
Total Business-type Activities	3,808,755	2,862,574	908,594	-	(37,587)
Total Primary Government	$ 18,135,917	$ 3,867,972	$ 5,287,074	$ 5,869	$ (8,975,002)
Component Units:					
SAIF Corporation	$ 463,068	$ 338,805	$ 268,064	$ -	$ 143,801
Oregon Health and Science University	1,108,561	696,038	491,948	35,174	114,599
Oregon University System Foundations	105,730	8,574	211,419	-	114,263
Total Component Units	$ 1,677,359	$ 1,043,417	$ 971,431	$ 35,174	$ 372,663

(continued on next page)

Statement of Activities
For the Year Ended June 30, 2004
(In Thousands)
(continued from previous page)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (Expense) Revenue	$ (8,937,415)	$ (37,587)	$ (8,975,002)	$ 372,663
General Revenues:				
Taxes:				
Personal Income Taxes	4,294,369	-	4,294,369	-
Corporate Income Taxes	314,510	-	314,510	-
Tobacco Taxes	252,885	-	252,885	-
Other Taxes	412,531	13,666	426,197	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	406,317	-	406,317	-
Weight Mile Taxes	224,078	-	224,078	-
Vehicle Registration Taxes	165,270	-	165,270	-
Restricted for Workers' Compensation Benefits:				
Employer-employee Taxes	249,822	-	249,822	-
Total Taxes	6,319,782	13,666	6,333,448	-
Unrestricted Investment Earnings	11,134	-	11,134	-
Contributions to Permanent Funds	4,701	-	4,701	-
Capital Contributions	389	660	1,049	-
Special Items	-	21,868	21,868	-
Transfers - Internal Activities	(44,272)	44,272	-	-
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	6,291,734	80,466	6,372,200	-
Change in Net Assets	(2,645,681)	42,879	(2,602,802)	372,663
Net Assets - Beginning	10,403,125	3,256,770	13,659,895	1,255,973
Cumulative Effect of Change in Accounting Principles	-	-	-	741,887
Prior Period Adjustments	(26,115)	10,198	(15,917)	50,726
Net Assets - Beginning - As Restated	10,377,010	3,266,968	13,643,978	2,048,586
Net Assets - Ending	$ 7,731,329	$ 3,309,847	$ 11,041,176	$ 2,421,249

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2004
(In Thousands)

	General	Health and Social Services	Public Transportation
ASSETS			
Cash and Cash Equivalents	$ 192,973	$ 282,614	$ 460,797
Investments	-	-	-
Investments - Restricted	-	-	-
Cash and Securities Held in Trust	-	-	13,080
Securities Lending Cash Collateral	244,929	551,014	262,816
Accounts and Interest Receivable (net)	10,200	132,222	59,357
Taxes Receivable	587,542	15,835	59,407
Due from Other Funds	138,394	10,125	181
Due from Other Governments	-	-	78
Inventories	25,605	1,638	19,424
Prepaid Items	3,093	6	-
Advances to Other Funds	115,981	-	-
Net Contracts, Notes and Other Receivables	18,646	4,361	5,393
Loans Receivable	-	-	-
Total Assets	$ 1,337,363	$ 997,815	$ 880,533
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	$ 131,237	$ 124,151	$ 95,901
Obligations Under Securities Lending	244,929	551,014	262,816
Due to Other Funds	4,033	10,296	14,055
Due to Other Governments	2,861	8,364	57,951
Matured Bonds/COPS and Coupons Payable	30	-	-
Tax Anticipation Notes Payable	750,906	-	-
Advances from Other Funds	2,495	65,000	-
Trust Funds Payable	8,412	3,978	12,860
Deferred Revenue	537,190	4,158	14,692
Contracts, Mortgages and Notes Payable	-	-	112
Total Liabilities	1,682,093	766,961	458,387
Fund Balances:			
Reserved for Encumbrances	12,501	5,258	-
Reserved for Inventories	25,605	1,638	19,424
Reserved for Loans Receivable	-	-	-
Reserved for Other Long-term Receivables	-	4,349	-
Reserved for Advances to Other Funds	115,981	-	-
Reserved for Prepaid Items	3,093	6	-
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	3	277	40
Unreserved, Undesignated	(501,913)	219,326	402,682
Unreserved, Undesignated, Reported in:			
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balances	(344,730)	230,854	422,146
Total Liabilities and Fund Balances	$ 1,337,363	$ 997,815	$ 880,533

The notes to the financial statements are an integral part of this statement.

	Environmental Management		Other		Total
$	286,784	$	731,150	$	1,954,318
	-		274,129		274,129
	-		93		93
	718		1,770		15,568
	140,569		353,880		1,553,208
	50,711		156,855		409,345
	-		14,081		676,865
	25,849		219,113		393,662
	-		46		124
	17,682		5,143		69,492
	154		755		4,008
	-		-		115,981
	3,983		262,943		295,326
	250,360		96,451		346,811
$	776,810	$	2,116,409	$	6,108,930

$ 20,783	$ 74,747	$	446,819
140,569	353,880		1,553,208
21,505	192,971		242,860
13,989	28,243		111,408
-	23		53
-	-		750,906
309	52,403		120,207
3,285	3,157		31,692
6,324	273,661		836,025
-	247		359
206,764	979,332		4,093,537
41,446	29,635		88,840
17,682	5,143		69,492
250,360	96,451		346,811
320	142		4,811
-	-		115,981
154	755		4,008
-	162,555		162,555
-	9,868		9,868
-	152,931		152,931
367	273		960
259,717	-		379,812
-	636,196		636,196
-	37,305		37,305
-	5,823		5,823
570,046	1,137,077		2,015,393
$ 776,810	$ 2,116,409	$	6,108,930

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2004
(In Thousands)

Total fund balances of governmental funds		$ 2,015,393
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 1,563,737	
Buildings, property and equipment	1,617,577	
Construction in progress	802,248	
Infrastructure	13,922,197	
Works of art and historical treasurers	469	
Accumulated depreciation and amortization	(7,667,620)	
Total capital assets		10,238,608
Some of the State's revenues will be collected after year end but are not available soon enough to pay the current year liabilities and are therefore deferred in the funds.		821,969
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.		136,114
Unamortized debt issuance costs are reported as deferred charges for governmental activities in the Statement of Net Assets, but are reported as expenditures in the funds.		13,460
Some liabilities are not due and payable in the current year and therefore are not reported in the funds. Those liabilities consist of:		
Bonds and COPS	(4,241,425)	
Accrued interest on bonds and COPS	(41,963)	
Claims and judgments	(1,105,123)	
Compensated absences	(102,054)	
Obligations under capital leases	(47)	
Income tax refunds	(2,580)	
Arbitrage rebate	(1,023)	
Total long-term liabilities		(5,494,215)
Net assets of governmental activities		$ 7,731,329

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004
(In Thousands)

	General	Health and Social Services	Public Transportation
Revenues:			
Personal Income Taxes	$ 4,278,734	$ -	$ -
Corporate Income Taxes	314,365	-	-
Tobacco Taxes	49,371	201,786	-
Motor Fuels Taxes	-	-	406,026
Weight-Mile Taxes	-	-	225,491
Employer-Employee Taxes	-	-	-
Vehicle Registration Taxes	-	-	165,270
Other Taxes	130,595	80,170	1,415
Licenses and Fees	22,479	29,710	43,259
Federal	-	2,252,777	469,073
Charges for Services	3,327	83,037	48,961
Fines and Forfeitures	5,681	684	4,264
Rents and Royalties	-	26	3,946
Investment Income	11,134	3,383	9,464
Sales	2,018	3,483	5,682
Donations and Grants	2	2,251	202
Contributions to Permanent Funds	-	-	-
Tobacco Settlement Proceeds	-	72,065	-
Pension Bond Debt Service Assessments	-	-	-
Other	7,873	186,532	5,973
Total Revenues	4,825,579	2,915,904	1,389,026
Expenditures:			
Current:			
Education	2,834,681	-	-
Human Resources	1,104,912	2,708,382	-
Public Safety	553,831	-	-
Economic and Community Development	4,823	-	-
Natural Resources	41,661	-	-
Transportation	3,920	7,784	1,247,874
Consumer and Business Services	5,403	70,767	-
Administration	109,359	125,174	115,212
Legislative	23,097	-	-
Judicial	198,833	469	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	28,651	-	-
Interest	33,383	-	-
Other Debt Service	631	499	-
Total Expenditures	4,943,185	2,913,075	1,363,086
Excess (Deficiency) of Revenues Over (Under) Expenditures	(117,606)	2,829	25,940
Other Financing Sources (Uses):			
Transfers from Other Funds	107,888	61,790	-
Transfers to Other Funds	(471,129)	(107,959)	(56,152)
Long-Term Debt Issued	-	103,115	-
Debt Issuance Premium	-	1,586	-
Debt Issuance Discount	-	-	-
Refunded Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	(363,241)	58,532	(56,152)
Net Change in Fund Balances	(480,847)	61,361	(30,212)
Fund Balances - Beginning	102,361	167,447	453,222
Prior Period Adjustments	31,967	1,226	90
Fund Balances - Beginning - As Restated	134,328	168,673	453,312
Change in Reserve for Inventories	1,789	820	(954)
Fund Balances - Ending	$ (344,730)	$ 230,854	$ 422,146

The notes to the financial statements are an integral part of this statement.

Environmental Management	Other	Total
$ -	$ -	$ 4,278,734
-	-	314,365
-	-	251,157
-	-	406,026
-	-	225,491
-	250,866	250,866
-	-	165,270
16,914	182,386	411,480
104,510	112,651	312,609
119,077	1,392,721	4,233,648
18,825	60,335	214,485
550	105,012	116,191
925	2,347	7,244
12,764	39,849	76,594
92,869	7,853	111,905
1,562	8,392	12,409
-	4,701	4,701
-	-	72,065
-	21,579	21,579
19,159	69,085	288,622
387,155	2,257,777	11,775,441
-	650,236	3,484,917
-	456,268	4,269,562
-	288,656	842,487
-	293,831	298,654
410,164	32,585	484,410
-	6,896	1,266,474
-	262,801	338,971
1	313,799	663,545
-	2,084	25,181
-	39,855	239,157
-	32,576	32,576
-	57,085	85,736
1	131,077	164,461
178	9,465	10,773
410,344	2,577,214	12,206,904
(23,189)	(319,437)	(431,463)
103,451	1,019,713	1,292,842
(59,568)	(2,718,669)	(3,413,477)
3,000	2,118,705	2,224,820
-	14,763	16,349
(1)	(125)	(126)
7,885	119,692	127,577
(7,736)	(136,470)	(144,206)
47,031	417,609	103,779
23,842	98,172	(327,684)
545,195	1,045,148	2,313,373
(167)	(5,844)	27,272
545,028	1,039,304	2,340,645
1,176	(399)	2,432
$ 570,046	$ 1,137,077	$ 2,015,393

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Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2004
(In Thousands)

Net change in fund balances of total governmental funds		$ (327,684)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:		
Capital outlay	$ 541,438	
Depreciation expense	(649,937)	
Excess of depreciation over capital outlays		(108,499)
The net effect of sales, transfers, and donations of capital assets is a decrease to net assets.		(77,722)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets.		(2,368,618)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		229,942
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these items are deferred and amortized in the Statement of Activities.		484
Accrued interest on long-term debt does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.		(21,797)
Some expenses reported in the Statement of Activities do not require the use of current financial resources; thus, they are not reported as expenditures in governmental funds.		1,495
Some revenues will not be collected for several months after the State's fiscal year ends; thus, they are not considered "available" revenues and are deferred in the governmental funds.		59,916
Change in inventory is reported as a separate line after the change in fund balances in the governmental statements, but is included in expenses in the governmental activities.		2,432
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities.		(35,630)
Change in net assets of governmental activities		$ (2,645,681)

Balance Sheet
Proprietary Funds
June 30, 2004
(In Thousands)

	Business-type Activities — Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 3,857	$ 109,561	$ 170,342
Cash and Cash Equivalents - Restricted	15,107	6,258	-
Investments	-	-	13,051
Investments - Restricted	472,123	-	-
Securities Lending Cash Collateral	35,166	263,146	122,957
Accounts and Interest Receivable (net)	9,802	5,791	18,406
Due from Other Funds	26	1	-
Due from Other Governments	-	-	-
Inventories	-	-	2,698
Prepaid Items	8	19	979
Foreclosed and Deeded Property	2,010	171	-
Total Current Assets	538,099	384,947	328,433
Noncurrent Assets:			
Cash and Securities Held in Trust	-	-	-
Cash and Cash Equivalents - Restricted	57,998	405,537	2,336
Investments	-	-	108,344
Investments - Restricted	325,245	155,641	-
Deferred Charges	12,552	1,913	-
Advances to Other Funds	-	-	-
Net Contracts, Notes and Other Receivables	-	360	-
Loans Receivable	974,767	339,922	-
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	1,261	9,945	72,171
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	85	-
Less Accumulated Depreciation and Amortization	(1,117)	(5,032)	(38,976)
Total Noncurrent Assets	1,370,706	908,371	143,875
Total Assets	$ 1,908,805	$ 1,293,318	$ 472,308

Business-type Activities — Enterprise Funds

Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 1,006,340	$ 298,609	$ 238,837	$ 1,827,546	$ 184,038
-	3,062	146	24,573	-
202,928	-	3	215,982	70,682
-	-	1,026	473,149	-
60,131	261,175	343	742,918	13,120
223,073	106,102	29,903	393,077	71,997
-	1,907	3,832	5,766	834
9,935	-	-	9,935	-
-	5,981	23,383	32,062	2,111
-	11,988	475	13,469	281
-	-	-	2,181	-
1,502,407	688,824	297,948	3,740,658	343,063
4	-	-	4	-
1,207	248,090	85,314	800,482	1,602
-	-	-	108,344	-
-	65,940	6,994	553,820	5,898
-	-	3,114	17,579	18
1,108	-	20,729	21,837	841
11,803	128,409	9,472	150,044	56
-	-	402,584	1,717,273	-
-	51,860	4,085	55,945	9,589
-	1,826,405	117,110	2,026,892	348,643
-	128,994	15,614	144,608	14,949
-	47,053	1,612	48,665	619
-	58,230	40	58,355	141
-	(939,225)	(48,643)	(1,032,993)	(156,259)
14,122	1,615,756	618,025	4,670,855	226,097
$ 1,516,529	$ 2,304,580	$ 915,973	$ 8,411,513	$ 569,160

(continued on next page)

Balance Sheet
Proprietary Funds
June 30, 2004
(In Thousands)

(continued from previous page)

	Business-type Activities — Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	$ 33,102	$ 13,283	$ 37,269
Obligations Under Securities Lending	35,166	263,146	122,957
Due to Other Funds	671	-	115,655
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	157	6,258	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	454,021	83,314	-
Trust Funds Payable	-	1,496	1,470
Deferred Revenue	30	-	-
Compensated Absences Payable	300	417	1,613
Total Current Liabilities	523,447	367,914	278,964
Noncurrent Liabilities:			
Bonds/COPS Payable	1,226,411	798,270	-
Obligations Under Capital Lease	-	-	-
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	108,344
Arbitrage Rebate Payable	595	385	-
Contracts, Mortgages and Notes Payable	5,716	-	-
Trust Funds Payable	-	-	-
Advances from Other Funds	-	-	-
Total Noncurrent Liabilities	1,232,722	798,655	108,344
Total Liabilities	1,756,169	1,166,569	387,308
Net Assets:			
Invested in Capital Assets, Net of Related Debt	145	4,998	33,195
Expendable Restricted Net Assets:			
Restricted for Residential Assistance	1,548	-	-
Restricted for Higher Education	-	-	-
Restricted for Debt Service	147,605	-	-
Restricted for Capital Construction	-	-	-
Restricted for Transportation	-	-	-
Restricted for Public Works Projects	-	-	-
Nonexpendable Restricted Net Assets:			
Restricted for Donor Purposes	-	-	-
Unrestricted	3,338	121,751	51,805
Total Net Assets	152,636	126,749	85,000
Total Liabilities and Net Assets	$ 1,908,805	$ 1,293,318	$ 472,308

The notes to the financial statements are an integral part of this statement.

Business-type Activities — Enterprise Funds				Governmental Activities
Unemployment Compensation	University System	Other	Total	Internal Service Funds
$ 13,368	$ 87,170	$ 32,413	$ 216,605	$ 15,256
60,131	261,175	343	742,918	13,120
1,700	14,072	12,810	144,908	10,966
6,399	-	997	7,396	-
-	3,062	146	9,623	-
-	223	10	233	-
-	27,757	56,430	621,522	5,898
916	21,224	5,846	30,952	171,481
-	68,357	1,324	69,711	18,651
-	31,493	7,275	41,098	5,344
82,514	514,533	117,594	1,884,966	240,716
-	728,985	327,465	3,081,131	113,035
-	277	17	294	-
-	-	-	-	78,180
-	-	-	108,344	-
-	158	54	1,192	129
-	738	-	6,454	839
-	-	579	579	-
-	16,081	2,345	18,426	426
-	746,239	330,460	3,216,420	192,609
82,514	1,260,772	448,054	5,101,386	433,325
-	451,824	58,986	549,148	111,199
-	-	-	1,548	-
-	169,321	-	169,321	-
-	60,942	23,714	232,261	-
-	186,058	-	186,058	-
-	-	22,062	22,062	-
-	-	31	31	-
-	14,682	-	14,682	-
1,434,015	160,981	363,126	2,135,016	24,636
1,434,015	1,043,808	467,919	3,310,127	135,835
$ 1,516,529	$ 2,304,580	$ 915,973	$ 8,411,513	$ 569,160

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are included with the business-type activies.

	(280)
Net assets of business-type activities	$ 3,309,847

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004
(In Thousands)

	Business-type Activities — Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
Operating Revenues:			
Assessments	$ -	$ -	$ -
Licenses and Fees	2,199	440	-
Federal	-	-	-
Charges for Services	2,278	2,898	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	494	-
Sales	-	-	893,130
Loan Interest Income	65,650	28,483	-
Investment Income	4,820	13,339	-
Gifts, Grants and Contracts	-	-	-
Other	153	588	-
Gain (Loss) on Foreclosed Property	337	493	-
Total Operating Revenues	75,437	46,735	893,130
Operating Expenses:			
Salaries and Wages	5,360	5,876	24,700
Services and Supplies	6,827	9,882	240,020
Cost of Goods Sold	-	-	-
Distributions to Other Governments	439	-	-
Special Payments	836	-	226,033
Bond and COP Interest	71,466	44,537	-
Other Debt Service	3,483	293	-
Depreciation and Amortization	123	409	4,420
Bad Debt Expense	137	(1,657)	-
Total Operating Expenses	88,671	59,340	495,173
Operating Income (Loss)	(13,234)	(12,605)	397,957
Nonoperating Revenues (Expenses):			
Investment Income (Loss)	-	-	(34)
Other Taxes	-	-	-
Other Nonoperating Items	-	-	(423)
Gain (Loss) on Disposition of Assets	-	-	-
Loan Interest Expense	(175)	-	-
Total Nonoperating Revenues (Expenses)	(175)	-	(457)
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	(13,409)	(12,605)	397,500
Capital Contributions	-	-	-
Special Items	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(457)	-	(386,670)
Change in Net Assets	(13,866)	(12,605)	10,830
Net Assets - Beginning	166,502	139,354	75,000
Prior Period Adjustments	-	-	(830)
Net Assets - Beginning - As Restated	166,502	139,354	74,170
Net Assets - Ending	$ 152,636	$ 126,749	$ 85,000

The notes to the financial statements are an integral part of this statement.

Business-type Activities — Enterprise Funds				Governmental Activities
Unemployment Compensation	University System	Other	Total	Internal Service Funds
$ 721,841	$ -	$ -	$ 721,841	$ -
-	-	3,344	5,983	-
262,121	479,951	606	742,678	-
-	432,363	63,268	500,807	209,949
2,213	-	500	2,713	-
-	-	2,292	2,786	30,700
-	217,353	306,051	1,416,534	12,421
-	-	24,120	118,253	-
54,314	18,370	2,845	93,688	-
-	72,210	19	72,229	4
2,625	12,943	5,067	21,376	7,653
-	-	-	830	-
1,043,114	1,233,190	408,112	3,699,718	260,727
-	884,113	155,585	1,075,634	85,492
437	635,739	71,012	963,917	136,759
-	-	154,710	154,710	19,038
24,960	-	38,666	64,065	-
1,082,910	-	451	1,310,230	-
-	33,302	18,143	167,448	6,012
-	-	217	3,993	11
-	67,495	3,437	75,884	17,148
-	-	237	(1,283)	-
1,108,307	1,620,649	442,458	3,814,598	264,460
(65,193)	(387,459)	(34,346)	(114,880)	(3,733)
-	-	-	(34)	1,989
-	-	13,666	13,666	-
-	72,897	-	72,474	-
-	1,662	(64)	1,598	872
-	-	(151)	(326)	(47)
-	74,559	13,451	87,378	2,814
(65,193)	(312,900)	(20,895)	(27,502)	(919)
-	651	9	660	-
-	-	21,868	21,868	-
225	357,162	207,388	564,775	3,682
(20,748)	(14,121)	(99,501)	(521,497)	(33,815)
(85,716)	30,792	108,869	38,304	(31,052)
1,519,731	1,013,016	348,022	3,261,625	170,041
-	-	11,028	10,198	(3,154)
1,519,731	1,013,016	359,050	3,271,823	166,887
$ 1,434,015	$ 1,043,808	$ 467,919	$ 3,310,127	$ 135,835

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with the business-type activities.	4,575
Change in net assets of business-type activities	$ 42,879

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004
(In Thousands)

	Business-type Activities Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
Cash Flows from Operating Activities:			
Receipts from Customers	$ 4,463	$ 4,138	$ 901,160
Receipts from Other Funds for Services	-	694	-
Loan Principal Repayments	187,358	149,929	-
Loan Interest Received	65,497	29,325	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(5,364)	(5,920)	(24,838)
Payments to Suppliers	(5,579)	(7,188)	(236,227)
Payments to Other Funds for Services	-	(718)	-
Payments to Prize Winners	-	-	(230,323)
Claims Paid	-	-	-
Loans Made	(147,410)	(31,342)	-
Distributions to Other Governments	-	(39)	-
Other Receipts (Payments)	862	(424)	-
Net Cash Provided (Used) in Operating Activities	99,827	138,455	409,772
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	539,632	-	-
Loan Proceeds	3,188	-	-
Principal Payments on Bonds/COPS	(495,565)	(188,213)	-
Principal Payments on Loans	(1,363)	-	-
Interest Payments on Bonds/COPS	(74,101)	(48,602)	-
Interest Payments on Loans	(126)	-	-
Bond/COP Issuance Costs	(2,286)	(789)	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Taxes and Assessments Received	-	-	-
Other Nonoperating Receipts	-	-	653
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(23)	-	(364,720)
Net Cash Provided (Used) in Noncapital Financing Activities	(30,644)	(237,604)	(364,067)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Bond/COP Issuance Costs	-	-	-
Repayments on Advances Made	-	-	-
Repayments on Advances Received	-	-	-
Principal Payments on Loans	-	-	-
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	(110)	(13)	(11,912)
Payments on Capital Leases	-	-	(45)
Proceeds from Disposition of Capital Assets	-	1	124
Capital Contributions	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(110)	(12)	(11,833)
Cash Flows from Investing Activities:			
Purchases of Investments	(1,587,144)	(360,250)	(9,953)
Proceeds from Sales and Maturities of Investments	1,513,964	470,235	12,416
Interest on Investments and Cash Balances	10,303	20,272	1,750
Interest Income from Securities Lending	463	2,064	962
Interest Expense from Securities Lending	(421)	(1,899)	(837)
Net Cash Provided (Used) in Investing Activities	(62,835)	130,422	4,338
Net Increase (Decrease) in Cash and Cash Equivalents	6,238	31,261	38,210
Cash and Cash Equivalents - Beginning	70,724	490,095	134,457
Prior Period Adjustments Restating Beginning Cash Balances	-	-	11
Cash and Cash Equivalents - Ending	$ 76,962	$ 521,356	$ 172,678

Business-type Activities — Enterprise Funds				Governmental Activities
Unemployment Compensation	University System	Other	Total	Internal Service Funds
$ 2,301	$ 1,191,316	$ 380,339	$ 2,483,717	$ 7,183
-	-	51	745	282,839
-	16,958	55,603	409,848	-
-	-	22,471	117,293	-
682,879	-	-	682,879	-
-	(877,712)	(155,024)	(1,068,858)	(95,158)
-	(541,986)	(212,028)	(1,003,008)	(121,876)
-	-	(5,011)	(5,729)	(9,540)
-	-	-	(230,323)	-
-	-	-	-	(10,870)
-	(69,057)	(68,055)	(315,864)	-
(25,916)	-	(38,119)	(64,074)	-
(810,866)	5,005	(261)	(805,684)	3,742
(151,602)	(275,476)	(20,034)	200,942	56,320
-	-	44,721	584,353	-
-	-	-	3,188	-
-	-	(25,008)	(708,786)	-
-	-	-	(1,363)	-
-	-	(16,817)	(139,520)	-
-	-	-	(126)	-
-	-	(710)	(3,785)	-
-	-	(580)	(580)	-
-	-	(60)	(60)	-
-	-	13,665	13,665	-
-	81,832	-	82,485	-
1,012	357,744	199,346	558,102	11,268
(28,212)	-	(96,207)	(489,162)	(15,090)
(27,200)	439,576	118,350	(101,589)	(3,822)
-	105,590	4,585	110,175	7,002
-	(26,242)	(6,591)	(32,833)	(7,480)
-	(31,426)	(1,413)	(32,839)	(5,790)
-	-	(39)	(39)	(147)
-	-	-	-	3
-	-	-	-	32
-	-	-	-	(350)
-	-	(91)	(91)	(47)
-	(168,734)	(9,718)	(190,487)	(24,716)
-	-	(9)	(54)	-
-	2,041	29	2,195	1,211
-	650	-	650	-
-	(118,121)	(13,247)	(143,323)	(30,282)
(40,502)	-	(6,477)	(2,004,326)	(19,150)
22,747	20,433	5,750	2,045,545	12,365
67,439	11,589	2,596	113,949	4,882
512	1,221	-	5,222	121
(437)	(1,112)	-	(4,706)	(121)
49,759	32,131	1,869	155,684	(1,903)
(129,043)	78,110	86,938	111,714	20,313
1,136,590	471,651	237,359	2,540,876	165,327
-	-	-	11	-
$ 1,007,547	$ 549,761	$ 324,297	$ 2,652,601	$ 185,640

(continued on next page)

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004
(In Thousands)
(continued from previous page)

	Business-type Activities Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	$ (13,234)	$ (12,605)	$ 397,957
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	123	409	4,420
Amortization of Bond/COP Issuance Costs	1,436	-	-
Amortization of Bond/COP Premium and Discount	6	(104)	-
Amortization of Deferred Charges	321	294	-
Bad Debt Expense	137	(1,657)	-
Interest Income Reported as Operating Revenue	(4,820)	(13,339)	-
Investment Expense Reported as Operating Expense	421	1,899	-
Interest Payments Reported as Operating Expense	71,179	44,641	-
Bond/COP Issuance Costs Reported as Operating Expense	2,007	789	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	40	913	8,031
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	(544)
Prepaid Items	(7)	15	(426)
Foreclosed and Deeded Property	475	-	-
Deferred Charges	-	-	-
Loans Receivable	41,503	117,960	-
Net Contracts, Mortgages, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	676	(309)	2,918
Due to Other Funds	(434)	-	-
Due to Other Governments	-	-	-
Trust Funds Payable	-	(415)	1,373
Deferred Revenue	(6)	-	-
Claims and Judgments Payable	-	-	-
Contracts, Mortgages and Notes Payable	-	-	-
Compensated Absences Payable	4	(36)	(139)
Lottery Prize Awards Payable	-	-	(3,818)
Total Adjustments	113,061	151,060	11,815
Net Cash Provided (Used) by Operating Activities	$ 99,827	$ 138,455	$ 409,772
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	$ (8,968)	$ (6,766)	$ (2,746)
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Transferred to Governmental Funds	-	-	-
Capital Assets Contributed	-	-	-
Loan Modification - Interest Capitalized	9	-	-
Foreclosed Property	5,833	260	-
Total Noncash Investing and Capital and Related Financing Activities	$ (3,126)	$ (6,506)	$ (2,746)

The notes to the financial statements are an integral part of this statement.

Business-type Activities — Enterprise Funds				Governmental Activities
Unemployment Compensation	University System	Other	Total	Internal Service Funds
$ (65,193)	$ (387,459)	$ (34,346)	$ (114,880)	$ (3,733)
-	67,495	3,437	75,884	17,148
-	-	238	1,674	-
-	-	65	(33)	242
-	-	123	738	11
-	-	237	(1,283)	-
(54,314)	(18,370)	(2,845)	(93,688)	-
437	-	2	2,759	-
-	33,302	17,857	166,979	5,790
-	-	158	2,954	147
(30,264)	(10,160)	(2,236)	(33,676)	4,402
-	-	(96)	(96)	291
4,001	-	-	4,001	-
-	392	(1,674)	(1,826)	658
-	(1,974)	(202)	(2,594)	(219)
-	-	-	475	-
-	-	(118)	(118)	(18)
-	-	(12,468)	146,995	-
(10,730)	850	-	(9,880)	36
6,614	(7,653)	12,247	14,493	(3,379)
-	-	122	(312)	(757)
(955)	-	(638)	(1,593)	-
-	225	(508)	675	11,005
(1,198)	12,027	430	11,253	18,327
-	-	-	-	7,295
-	35,849	-	35,849	-
-	-	181	10	(926)
-	-	-	(3,818)	-
(86,409)	111,983	14,312	315,822	60,053
$ (151,602)	$ (275,476)	$ (20,034)	$ 200,942	$ 56,320
$ (10,024)	$ 6,634	$ (24)	$ (21,894)	$ 3,196
-	-	-	-	6,562
-	104	-	104	-
-	-	-	-	(21,055)
-	-	14	14	-
-	-	-	9	-
-	-	465	6,558	-
$ (10,024)	$ 6,738	$ 455	$ (15,209)	$ (11,297)

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004
(In Thousands)

	Pension Trust	Private Purpose Trust	Investment Trust	Agency
ASSETS				
Cash and Cash Equivalents	$ 2,499,116	$ 51,060	$ 3,328,246	$ 96,053
Receivables:				
Employer Contributions	92,995	-	-	-
Employee Contributions	89,149	-	-	-
Interest and Dividends	139,615	737	4,527	6
Investment Sales	538,741	2,707	-	-
Accounts	-	570	231	7,165
From Other Funds	37,851	1,275	-	-
Total Receivables	898,351	5,289	4,758	7,171
Investments:				
Fixed Income	12,796,548	121,428	-	21,618
Equity	25,419,992	1,326	-	-
Real Estate	1,812,938	5,135	-	-
Alternative Equity	4,258,718	-	-	-
Mutual Funds	672,428	717,117	-	-
Restricted Investment Contracts	9,847	-	-	-
Total Investments	44,970,471	845,006	-	21,618
Cash and Securities Held in Trust	-	779	-	1,370,034
Securities Lending Cash Collateral	4,395,980	42,455	1,588,014	-
Inventories	9	22	-	-
Prepaid Items	2,817	-	-	-
Advance to Other Funds	-	400	-	-
Net Contracts, Notes and Other Receivables	-	361	-	97,329
Conservatorship and Custodial Assets	-	4,158	-	45
Receivership Assets	-	-	-	95,625
Loans Receivable	-	589	-	-
Capital Assets (net of accumulated depreciation):				
Land	836	803	-	-
Buildings, Property and Equipment	15,172	249	-	-
Infrastructure	-	2,376	-	-
Works of Art and Historical Treasures	-	25	-	-
Total Assets	52,782,752	953,572	4,921,018	1,687,875
LIABILITIES				
Accounts and Interest Payable	2,100,197	32,694	-	10
Obligations Under Securities Lending	4,395,980	42,455	1,588,014	-
Due to Other Funds	37,851	2,803	-	-
Due to Other Governments	-	-	-	2,393
Trust Funds Payable	156,120	172,056	-	1,685,472
Bonds/COPS Payable	60,837	-	-	-
Compensated Absences Payable	-	193	-	-
Contracts, Mortgages and Notes Payable	-	628	-	-
Total Liabilities	6,750,985	250,829	1,588,014	1,687,875
NET ASSETS				
Held in Trust for:				
Employees' Pension Benefits	45,213,406	-	-	-
Employees' Postemployment Healthcare Benefits	145,089	-	-	-
External Investment Pool Participants	-	-	3,333,004	-
Individuals, Organizations and Other Governments	673,272	702,743	-	-
Total Net Assets	$ 46,031,767	$ 702,743	$ 3,333,004	$ -

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004
(In Thousands)

	Pension Trust	Private Purpose Trust	Investment Trust
ADDITIONS			
Contributions:			
Employer	$ 3,209,873	$ -	$ -
Employee	516,373	-	-
Other Sources	23,763	-	-
Total Contributions	3,750,009	-	-
Investment Income:			
Net Appreciation in Fair Value of Investments	6,405,892	107,012	-
Interest, Dividends and Other Investment Income	1,099,528	14,052	57,773
Total Investment Income	7,505,420	121,064	57,773
Less Investment Expense	221,338	263	16,314
Net Investment Income	7,284,082	120,801	41,459
Licenses and Fees	-	897	-
Charges for Services	-	90	-
Fines and Forfeitures	-	16	-
Rents and Royalties	-	3,171	-
Sales	-	54	-
Gifts, Grants and Contracts	-	470	-
Other Income	1,458	11,751	-
Share Transactions:			
Participant Contributions	-	-	12,441,523
Participant Withdrawals	-	-	12,422,651
Net Share Transactions	-	-	18,872
Transfers from Other Funds	-	16,285	-
Total Additions	11,035,549	153,535	60,331
DEDUCTIONS			
Pension Benefits	2,550,754	-	-
Death Benefits	8,610	-	-
Contributions Refunded	42,193	-	-
Healthcare Premium Subsidies	107,187	-	-
Distributions to Participants	-	-	50,558
Administrative Expenses	30,855	14,504	-
Payments in Accordance with Trust Agreements	-	15,906	-
Transfers to Other Funds	-	9,290	-
Total Deductions	2,739,599	39,700	50,558
Change in Net Assets Held in Trust For:			
Employees' Pension Benefits	8,172,164	-	-
Employees' Postemployment Healthcare Benefits	28,570	-	-
External Investment Pool Participants	-	-	9,773
Individuals, Organizations and Other Governments	95,216	113,835	-
Net Assets - Beginning	37,735,817	589,551	3,323,231
Prior Period Adjustments	-	(643)	-
Net Assets - Beginning - As Restated	37,735,817	588,908	3,323,231
Net Assets - Ending	$ 46,031,767	$ 702,743	$ 3,333,004

The notes to the financial statements are an integral part of this statement.

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Combining Balance Sheet
Discretely Presented Component Units
June 30, 2004
(In Thousands)

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 116,227	$ 69,208	$ 47,981	$ 233,416
Investments	2,645,915	39,707	787,507	3,473,129
Securities Lending Cash Collateral	471,338	-	-	471,338
Accounts and Interest Receivable (net)	296,709	134,876	8,010	439,595
Pledges Receivable	-	6,547	44,388	50,935
Inventories	80	7,967	8,805	16,852
Prepaid Items	907	7,253	2,209	10,369
Total Current Assets	3,531,176	265,558	898,900	4,695,634
Noncurrent Assets:				
Investments	-	303,424	-	303,424
Investments - Restricted	-	574,315	-	574,315
Deferred Charges	-	9,426	-	9,426
Pledges Receivable	-	17,118	40,871	57,989
Capital Assets:				
Land	2,922	49,041	4,678	56,641
Buildings, Property and Equipment	47,732	1,123,944	8,833	1,180,509
Construction in Progress	-	105,766	31,196	136,962
Works of Art and Historical Treasures	-	-	364	364
Less Accumulated Depreciation and Amortization	(27,024)	(513,925)	(3,991)	(544,940)
Total Noncurrent Assets	23,630	1,669,109	81,951	1,774,690
Total Assets	$ 3,554,806	$ 1,934,667	$ 980,851	$ 6,470,324
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts and Interest Payable	$ 86,921	$ 118,707	$ 3,794	$ 209,422
Reserve for Loss and Loss Adjustment Expense	167,328	-	-	167,328
Obligations Under Securities Lending	471,338	-	-	471,338
Due to Other Governments	4,789	-	-	4,789
Obligations Under Capital Lease	-	543	-	543
Obligations Under Life Income Agreements	-	6,018	63,475	69,493
Bonds/COPS Payable	-	6,575	-	6,575
Trust Funds Payable	-	-	9,736	9,736
Deferred Revenue	92,087	138,782	121	230,990
Compensated Absences Payable	3,158	31,147	-	34,305
Total Current Liabilities	825,621	301,772	77,126	1,204,519
Noncurrent Liabilities:				
Bonds/COPS Payable	-	549,319	47,425	596,744
Obligations Under Capital Lease	-	4,150	-	4,150
Claims and Judgments Payable	2,171,470	25,414	-	2,196,884
Contracts, Mortgages and Notes Payable	-	46,628	150	46,778
Total Noncurrent Liabilities	2,171,470	625,511	47,575	2,844,556
Total Liabilities	2,997,091	927,283	124,701	4,049,075
Net Assets:				
Invested in Capital Assets, Net of Related Debt	23,630	359,956	6,133	389,719
Expendable Restricted Net Assets:				
Restricted for Workers' Compensation	534,085	-	-	534,085
Restricted for Education	-	178,676	412,597	591,273
Nonexpendable Restricted Net Assets:				
Restricted for Donor Purposes	-	-	387,011	387,011
Restricted for Education	-	108,116	-	108,116
Unrestricted	-	360,636	50,409	411,045
Total Net Assets	557,715	1,007,384	856,150	2,421,249
Total Liabilities and Net Assets	$ 3,554,806	$ 1,934,667	$ 980,851	$ 6,470,324

The notes to the financial statements are an integral part of this statement.

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Discretely Presented Component Units
For the Year Ended June 30, 2004
(In Thousands)

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations
Operating Revenues:			
Charges for Services	$ -	$ 631,040	$ 2,913
Rents and Royalties	-	-	125
Sales	-	18,079	109
Premiums Earned (net)	312,051	-	-
Investment Income (net)	268,064	-	87,949
Gifts, Grants and Contracts	-	404,597	123,470
Auxiliary Enterprises (net)	-	10,384	-
Other	26,754	36,535	5,427
Total Operating Revenues	606,869	1,100,635	219,993
Operating Expenses:			
Salaries and Wages	-	622,967	218
Services and Supplies	-	375,973	104,977
Loss and Loss Adjustment Expense	375,725	-	-
Policyholders' Dividends	1,890	-	-
Underwriting Expenses	83,814	-	-
Bond and COP Interest	-	16,779	-
Depreciation and Amortization	-	70,463	532
Bad Debt Expense	-	21,861	-
Other Expenses	1,639	-	-
Total Operating Expenses	463,068	1,108,043	105,727
Operating Income (Loss)	143,801	(7,408)	114,266
Nonoperating Revenues (Expenses):			
Investment Income	-	44,401	-
Gain (Loss) on Disposition of Assets	-	(518)	(3)
State Appropriations	-	42,950	-
Total Nonoperating Revenues (Expenses)	-	86,833	(3)
Income (Loss) Before Capital Contributions	143,801	79,425	114,263
Capital Contributions	-	35,174	-
Change in Net Assets	143,801	114,599	114,263
Net Assets - Beginning	363,188	892,785	-
Cumulative Effect of Change in Accounting Principles	-	-	741,887
Prior Period Adjustments	50,726	-	-
Net Assets - Beginning - As Restated	413,914	892,785	741,887
Net Assets - Ending	$ 557,715	$ 1,007,384	$ 856,150

The notes to the financial statements are an integral part of this statement.

Total	Adjustments to Recast	Statement of Activities
$ 633,953	$ 409,464	$ 1,043,417
125	(125)	-
18,188	(18,188)	-
312,051	(312,051)	-
356,013	(356,013)	-
528,067	443,364	971,431
10,384	(10,384)	-
68,716	(68,716)	-
1,927,497	87,351	2,014,848
623,185	-	623,185
480,950	-	480,950
375,725	-	375,725
1,890	-	1,890
83,814	-	83,814
16,779	-	16,779
70,995	-	70,995
21,861	-	21,861
1,639	521	2,160
1,676,838	521	1,677,359
250,659	86,830	337,489
44,401	(44,401)	-
(521)	521	-
42,950	(42,950)	-
86,830	(86,830)	-
337,489	-	337,489
35,174	-	35,174
372,663	-	372,663
1,255,973	-	1,255,973
741,887	-	741,887
50,726	-	50,726
2,048,586	-	2,048,586
$ 2,421,249	$ -	$ 2,421,249

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity. The State of Oregon (State) was admitted to the Union in 1859 and is governed by an elected governor and a ninety-member elected legislative body. The accompanying financial statements present the State, which includes all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or entities that warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government. The State's discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State.

Discretely Presented Component Units

The component unit column in the government-wide financial statements includes the data of the State's three discretely presented component units.

- SAIF Corporation (SAIF) is a public corporation, created by an act of the Legislature, which is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF is governed by a board of directors appointed by the Governor, and is financed solely through policyholder premiums and investment income. SAIF reports on a fiscal year ended December 31, and uses proprietary fund accounting principles. The December 31, 2003, financial information of SAIF is included in this report.

- The Oregon Health and Science University (OHSU) is a governmental entity performing governmental functions and exercising governmental powers. OHSU is an independent public corporation governed by a board of directors appointed by the Governor and confirmed by the Senate. It is an academic health center that provides education and training to health care professionals, conducts biomedical research, and provides patient care and public service. It is financed primarily through patient service fees, government grants and contracts, tuition charges, and other incidental fees. OHSU also receives general fund monies from the State. The State legislature has acknowledged its intent to make funds available to pay any shortfall in general obligation bonds issued for OHSU purposes prior to July 1, 1995, when OHSU became an independent public corporation. OHSU uses proprietary fund accounting principles.

- The Oregon University System (OUS) Foundations provide assistance in fundraising, public outreach and other support for the missions of seven State supported universities. Oregon implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units,* effective June 30, 2004. GASB Statement No. 39 amends GASB Statement No. 14, *The Financial Reporting Entity,* and provides criteria for determining whether organizations should be reported as component units based on the nature and significance of their relationship with the primary government. The foundations are considered component units of the OUS, a proprietary fund of the State of Oregon. Combined, the foundations are discretely presented as a component unit of the State.

Complete financial statements for SAIF, OHSU and OUS may be obtained from their respective administrative offices or from the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Related Organizations

The following professional and occupational licensing boards are semi-independent: the Board of Architect Examiners, the Board of Examiners for Engineering and Land Surveying, the Landscape Architect Board, the Board of Geologist Examiners, the Board of Optometry, the Board of Massage Therapists, the Physical Therapists Licensing Board, the Appraiser Certification and Licensure Board, the Landscape Contractors Board, the Wine Board and the Patient Safety Commission. Although the Governor appoints the administrators of these boards, the boards are all self-supporting. The State has no financial accountability for these related organizations.

The Oregon Utility Notification Center (OUNC) is an independent nonprofit public corporation. Although the Governor appoints members to OUNC's board of directors, OUNC is funded through fees paid by operators of underground utilities who subscribe to OUNC. The OUNC receives no general fund monies, and the State has no financial accountability for OUNC.

B. Government-wide and Fund Financial Statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been eliminated from these statements through consolidation, except for interfund activity that represents a true exchange of goods and services between funds. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Interfund activity within governmental and within business-type activities has been eliminated through consolidation; however, balances due and resource flows between governmental and business-type activities have not been eliminated. The *primary government* is reported separately from its *component units*.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Included in direct expenses are administrative overhead charges for centralized services charged to functions through internal service funds. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function, and 3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, fines, forfeitures, and federal revenues. Derived tax revenue, net of estimated refunds, is recognized in the fiscal year in which it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Revenue items not susceptible to accrual are considered to be measurable and available only when cash is received; for example, license and fee revenue, the principal portion of loan repayments, and cash sales of goods and services.

Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The State reports the following major governmental funds:

The G*eneral Fund* is the State's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and health care to individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of funding for these programs come from federal grants, cigarette taxes, insurance premiums, and non-federal grants and donations.

The *Public Transportation Fund* accounts for the planning, design, construction, and maintenance of highways, roads, bridges, and public systems relating to air, water, rail, and highway transportation. Funding is provided from dedicated highway user taxes and vehicle registration taxes in addition to various federal highway administration funds.

The *Environmental Management Fund* accounts for programs that promote, protect, and preserve the State's forests, parks, wildlife, fish, and waterways. The main funding sources for these programs are usage fees, federal grants, and sales revenue.

The State reports the following major proprietary (enterprise) funds:

The *Housing and Community Services Fund* accounts for activities to finance multi-family housing construction and home mortgages for low-income families and other programs such as the moderate-income elderly and disabled housing finance program, the single-family loan program, and the community development corporation program. Funding is from the issuance of bonds that are repaid from the interest and principal payments made on mortgages.

The *Veterans' Loan Fund* accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of general obligation bonds that are repaid from the interest and principal payments made on mortgages.

The *Lottery Operations Fund* accounts for the operation of the Oregon State Lottery. The primary objective of the State Lottery is to produce the maximum amount of net revenues to be used for K-12 education programs, furthering economic development, as well as restoring and protecting certain parks and natural resources.

The *Unemployment Compensation Fund* accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed.

The *University System Fund* accounts for the operations of Oregon's seven public universities, including the Chancellor’s Office. Funding is from General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to funds from external donors and federal agencies.

Additionally, the State reports the following fund types:

The *Internal Service Funds* account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis. These include central services such as accounting, budgeting, personnel, mail, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund. Legal, banking, and audit services are also accounted for in internal service funds.

The *Pension Trust Funds* account for activities of the Public Employees Retirement System, which administers resources for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the retirement system.

The *Private Purpose Trust Funds* account for all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. Primarily, this includes the State’s Common School Fund, which accounts for the principal and interest derived from the sale of timber, land, and property escheated to the State. Earnings in the Common School Fund must be used for educational purposes.

The *Investment Trust Fund* accounts for the portion of the Oregon Short-term Fund (OSTF) belonging to local governments. The OSTF is a cash and investment pool, managed by the State Treasurer, which is available for use by all funds and local governments. Oregon reports the State’s portion of the pool within the funds of the State.

The *Agency Fund* accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations,

including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the Oregon Health and Science University, a discretely presented component unit of the State, applies private-sector guidance issued after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The primary operating revenues for the State's enterprise funds and internal service funds include assessments, charges for services, sales revenue, and grants. The principal operating expenses for enterprise funds and internal service funds include salaries and wages, services and supplies, and special payments. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

D. Deposits and Investments

Deposits
Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the State Treasury in the Oregon Short-term Fund, and cash deposits of debt proceeds in investment funds held by a trustee.

Investments
Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.

- Investments in the Oregon Short-term Fund with remaining maturities of up to ninety days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets but as investments in Note 2.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and ask prices. A small percentage of debt securities cannot be priced in this manner, and for these, a similar "benchmark" security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. Investments in alternative equities representing private securities are generally reported at cost unless a significant market event warrants an adjustment to cost. Mortgage loans on real estate and State agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon State Treasury.

Derivatives
In accordance with State investment policies, the Oregon State Treasury invests either directly or through its outside investment managers on behalf of the State in contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios. The State does not hold or issue derivative financial instruments for trading purposes. All derivatives held by the State are reported at fair value.

***E. Receivables and Payables*.** Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Trade and income tax receivables consist of revenues earned or accrued in the current period and are shown net of uncollectible amounts.

F. Interfund Transactions. Interfund balances (due to/from other funds and advances to/from other funds) and interfund activity (transfers to/from other funds) within a major fund column in the fund financial statements have been eliminated.

G. Inventories. Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental funds, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are not available for appropriation. In proprietary funds, inventories are expended when consumed rather than when purchased. OHSU records inventories at the lower of cost or market, with the majority accounted for under the first-in-first-out method.

H. Prepaid Items. Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items in both government-wide and fund financial statements. In governmental funds, prepaid items are accounted for using the consumption method and a portion of fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

I. Restricted Assets. Certain proceeds of the State's bond and certificate of participation (COP) issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net assets because these resources are segregated and their use is limited by applicable bond covenants or COP financing agreements. Generally, this includes cash and investments set aside for current and future debt service payments.

J. Foreclosed and Deeded Properties. Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or fair market value.

K. Receivership Assets. Net assets of insurance companies that have been placed into receivership under the control of the Department of Consumer and Business Services in accordance with Oregon Revised Statutes are recorded as receivership assets.

L. Capital Assets. Capital assets, which include property, equipment, and infrastructure assets (i.e., highways, tunnels, bridges, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the State as assets with an initial cost of $5,000 or more and an estimated useful life of at least one year. Such assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of assets or significantly extend assets lives are expensed rather than capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Significant interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as its component units, are depreciated over their estimated useful lives using the straight-line method, unless they are considered inexhaustible. Useful lives for buildings and related assets range from 5 to 100 years while useful lives of equipment and machinery range from 2 to 99 years.

For infrastructure assets, useful lives range from 5 to 99 years. Useful lives for works of art and historical treasures range from 1 to 99 years.

M. Compensated Absences. Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from State service. A liability for vacation leave (compensated absences) is accrued when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for compensated absences is reported in governmental funds only if the liabilities have matured, for example, as a result of employee resignations and retirements.

N. Long-term Obligations. In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities for governmental activities or business-type activities, as applicable. In proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the balance sheet. Bond or certificate of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the debt using the effective interest method or the bonds outstanding method. Bonds/COP payable is reported net of the applicable bond/COP premium or discount. Bond/COP issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond/COP premiums and discounts, as well as bond/COP issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. No portion of the unreserved fund balance in the accompanying financial statements has been designated.

In the government-wide statement of net assets and the proprietary fund balance sheet, fund equity (referred to as *net assets*) is reported in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Restricted net assets result from restrictions imposed on a portion of net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available for use, it is the discretion of the individual state agencies whether to use restricted resources first, then unrestricted resources as they are needed, or to use unrestricted resources first, then restricted resources.

2. DEPOSITS AND INVESTMENTS

The State's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill and caution. While the Treasurer is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Further, equity investments are limited to not more than 50 percent of the monies contributed to the Oregon Public Employees Retirement Fund (OPERF), Industrial Accident Fund (SAIF Corporation), and not more than 65 percent of the Common School Fund within the Division of State Lands. The Deferred Compensation Fund, the Education Stability Fund, and the State Board of Higher Education may also invest in equities.

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State. The portion of the pool belonging to local governments is reported in the investment trust fund. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the financial

statements as cash and cash equivalents. However, OSTF investments are disclosed in B below and classified by custodial credit risk for investments.

The Treasurer also makes short-term and long-term investments, which are held separately by several of the State's funds. Other investments are made directly by state agencies rather than by the Treasurer, although only a few agencies are authorized to make such investments and then only for specific programs. The State Treasury's direct investments in short-term securities are limited by portfolio rules established by the Oregon Short-Term Fund Board and the Council.

A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report can be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896 or from their website at http://www.ost.state.or.us/divisions/investment/index.htm#fund.

Participants' account balances in the OSTF are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the Oregon State Treasury. The interest rate approximates the actual yield of the OSTF exclusive of unrealized gains and losses.

The following schedule reconciles the carrying amounts in this disclosure to balances reported in the Government-wide Statement of Net Assets and the Fiduciary Funds Statement of Fiduciary Net Assets (in thousands):

	Cash and Cash Equivalents	Investments	Cash and Securities Held in Trust	Securities Lending Assets
Carrying Amount:				
Deposits - Primary Government	$ 2,697,980	$ -	$ -	$ -
Deposits - Discretely Presented Component Units	233,416	-	-	-
Investments - Primary Government	-	65,311,061	-	-
Investments - Discretely Presented Component Units	-	4,822,607	-	-
Subtotal	2,931,396	70,133,668	-	-
Cash Equivalents in Oregon Short-Term Fund (OSTF)	8,085,789	(8,085,789)	-	-
Amounts Held in Trust	(16,734)	(1,369,651)	1,386,385	-
Securities Lending:				
Cash and Reinvested Cash Collateral - Primary Government	-	(8,316,426)	-	8,335,696
Cash and Reinvested Cash Collateral - Component Units	-	(471,741)	-	471,338
Totals	$ 11,000,451	$ 51,890,061	$ 1,386,385	$ 8,807,034

A. Deposits. There are three categories of custodial credit risk that apply to deposits of both the State's primary government and its discretely presented component units:

1. Insured or collateralized with securities held by the State or by its agent in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
3. Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the State's name.

Deposit balances held in each category are as follows (in thousands):

	Category			Total Bank	Carrying
	1	2	3	Balance	Amount
Primary Government	$ 86,869	$ 6,388	$2,305,114	$2,398,371	$1,721,223
Discretely Presented Component Units	17,165	16,633	98,467	132,265	233,416
U.S. Treasury Deposits	-	-	-	-	976,757
Totals	$ 104,034	$ 23,021	$2,403,581	$2,530,636	$2,931,396

Approximately $2.2 billion under the third risk category is OPERF Investment Managers' deposits in custodian banks. Another $21.5 million under the third risk category is deposited with bond trustees who assume responsibility for those funds. U.S. Treasury deposits consist of unemployment compensation trust funds held in the Federal Reserve Bank and backed by the full faith and credit of the U.S. Government. Approximately $16.7 million of the carrying amount of the cash and cash equivalents shown above is reported as cash and securities held in trust.

B. Investments. There are three categories of custodial credit risk that apply to investments of both the State's primary government and its discretely presented component units:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the State's name.

Investment balances held by the primary government in each category are as follows (in thousands):

Investments – Categorized	**Category**			**Reported**	**Fair**
	1	**2**	**3**	**Amount**	**Value**
Investments not on Securities Loan:					
U.S. Government and Agency Securities	$ 5,831,741	$ -	$ 15,623	$ 5,847,364	$ 5,847,364
Domestic Equity Securities	6,040,074	-	737,964	6,778,038	6,778,038
International Equity Securities	4,790,603	-	-	4,790,603	4,790,603
Commercial Paper	2,817,486	-	-	2,817,486	2,817,486
Corporate Bonds	2,801,979	-	170	2,802,149	2,802,149
Municipal Bonds	530,465	-	-	530,465	530,465
International Bonds	1,047,668	-	-	1,047,668	1,047,668
Asset-Backed Securities	2,361,960	-	-	2,361,960	2,361,960
Repurchase Agreements	86,766	-	-	86,766	86,766
Other	4,782	-	4	4,786	4,786
Investments on Securities Loan for Securities and Tri-Party Agreement Collateral:					
Domestic Equity Securities	2,838	-	-	2,838	2,838
International Equity Securities	126,043	-	-	126,043	126,043
International Bonds	2,901	-	-	2,901	2,901
Subtotal	$26,445,306	$ -	$ 753,761	27,199,067	27,199,067
Investments – Not Categorized					
Investments Held by Broker-Dealers Under Securities Loan with Cash Collateral:					
U.S. Government and Agency Securities				5,833,369	5,833,369
Domestic Equity Securities				820,951	820,951
International Equity Securities				1,011,529	1,011,529
Corporate Bonds				420,575	420,575
International Bonds				37,316	37,316
Securities Lending Short-Term Collateral Investment Pool				8,316,426	8,316,426
Mutual Funds				15,453,090	15,453,090
Alternative Equities				4,267,612	4,267,612
Real Estate and Real Estate Mortgages				1,824,123	1,824,123
Guaranteed Investment Contracts				121,068	121,068
Annuity Contracts				3,797	3,797
Other				2,138	2,138
Total Investments				$65,311,061	$65,311,061

Investment balances held by OHSU and the University foundations as of June 30, 2004 and by SAIF Corporation as of December 31, 2003 in each category are as follows (in thousands):

Investments – Categorized	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Investments not on Securities Loan:					
U.S. Government and Agency Securities	$ 434,310	$ -	$ -	$ 434,310	$ 434,310
Domestic Equity Securities	264,197	-	-	264,197	264,197
Commercial Paper	80,932	-	-	80,932	80,932
Corporate Bonds	913,418	-	-	913,418	913,418
Municipal Bonds	15,107	-	-	15,107	15,107
International Bonds	167,354	-	-	167,354	167,354
Asset-Backed Securities	853,444	-	-	853,444	853,444
Other	14,581	-	-	14,581	14,581
Subtotal	$ 2,743,343	$ -	$ -	2,743,343	2,743,343
Investments – Not Categorized					
Investments Held by Broker-Dealers Under Securities Loan with Cash Collateral:					
U.S. Government and Agency Securities				316,801	316,801
Domestic Equity Securities				12,972	12,972
Corporate Bonds				37,845	37,845
International Bonds				13,803	13,803
Asset-backed Securities				75,766	75,766
Securities Lending Short-Term Collateral Investment Pool				471,741	471,741
Domestic Equity Securities				291,658	291,658
Mutual Funds and Trust Accounts				593,544	593,544
Alternative Equities				103,551	103,551
U.S. Government and Agency Securities				72,045	72,045
Corporate Bonds				63,283	63,283
Asset-Backed Securities				11,777	11,777
Real Estate and Real Estate Mortgages				4,714	4,714
Other				9,764	9,764
Total Investments				$4,822,607	$4,822,607

Repurchase Agreements and Reverse Repurchase Agreements. During the fiscal year, external investment managers for OPERF, SAIF Corporation, and the Common School Fund invested in overnight repurchase agreements. Repurchase agreements held as of June 30, 2004 were $284.3 million for OPERF and $11.8 million for the Common School Fund.

Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2004:

- $1.0 billion, or 21.4% of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies except PERS.
- $316.8 million, or 7.5% of PERS' share of the collective investment pool, the cash collateral pool in which PERS is a participant along with other qualified pension plans.

No losses were incurred and there were no violations of legal, regulatory, or contractual provisions of repurchase agreements. No reverse repurchase agreements were made during the year.

C. Securities Lending. The State participates in securities lending transactions in accordance with State investment policies. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements.

During the year, State Street lent U.S. Government and agency securities, domestic fixed income and equity securities, and international fixed income and equity securities, and received as collateral U.S. dollar-denominated cash, U.S. Government and agency securities, and foreign sovereign debt securities of the Organization of

Economic Cooperation Development countries. Borrowers were required to deliver collateral for each loan equal to at least 102% of the fair value of the loaned security, or 105% in the case of international securities. Loans are marked to market daily. If the market value of collateral falls below 102% or 105% of the fair value of the loaned security, the lender may demand from the borrower sufficient collateral to raise the market value to 102% or 105%. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 102% or 105%. The State did not impose any restrictions during the fiscal year on the amount of the loans State Street made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default, but was fully indemnified by State Street against such losses.

During the year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on loans from OPERF was invested together with cash collateral of other qualified tax-exempt plan lenders in a collective investment pool (Pool). The cash collateral received on loans from State entities other than OPERF was invested in the Oregon Short-Term Investment Fund (Fund) maintained by State Street. Because loans were terminable at will by either party, their duration did not generally match the duration of investments made with cash collateral in either the Pool or the Fund. For the primary government, the fair value of securities on loan as of June 30, 2004, was $8.3 billion and the collateral held on the same date was $8.5 billion. As of December 31, 2003, the fair value of securities on loan and collateral held for SAIF Corporation was $457.2 million and $471.3 million respectively. The State had no credit risk exposure to borrowers related to securities on loan.

Securities lent at year end for cash collateral are presented as not categorized in the preceding schedule of custodial credit risk. Cash collateral invested in the short-term investment fund maintained by State Street is presented as not categorized in the schedule of custodial credit risk. Securities lent for securities collateral are classified according to the category of the collateral received.

D. Restricted Assets. Included in deposits and investments are amounts which are committed for specific purposes, including loan acquisitions, payment of debt service, lottery prizes, and deferred compensation. At June 30, 2004, the primary government had restricted assets of $1.1 billion in deposits and $1.1 billion in investments. The discretely presented component units had restricted assets of $574.3 million in investments.

3. RECEIVABLES AND PAYABLES

A. Receivables. The following tables disaggregate receivable balances reported in the fund financial statements as Accounts and Interest Receivable (net) and Net Contracts, Notes, and Other Receivables. Contracts, Notes, and Other Receivables are not expected to be collected within one year of the date of the financial statements.

Receivables reported for governmental activities at June 30, 2004, were as follows (in thousands):

	General	Health & Social Services	Public Transportation	Environmental Management	Other	Total	Internal Service
Governmental activities:							
General accounts	$ 10,639	$ 29,305	$ 13,672	$ 26,952	$ 72,277	$ 152,845	$ 71,906
Due from federal government	-	103,632	45,747	21,279	77,300	247,958	-
Interest	-	-	82	2,630	8,400	11,112	1,034
Contracts	2	-	1,348	1,679	142	3,171	-
Mortgages	-	4,348	-	-	-	4,348	55
Other	25,516	13	6,714	9,344	716,848	758,435	-
Gross receivables	36,157	137,298	67,563	61,884	874,967	1,177,869	72,995
Allowance for uncollectibles	(7,311)	(715)	(2,813)	(7,190)	(455,169)	(473,198)	(942)
Total receivables, net	$ 28,846	$ 136,583	$ 64,750	$ 54,694	$ 419,798	$ 704,671	$ 72,053

Receivables reported for business-type activities at June 30, 2004, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities:							
General accounts	$ 10	$ 246	$ 18,634	$ 220,319	$ 68,002	$ 19,712	$ 326,923
Due from federal government	-	-	-	2,204	-	606	2,810
Interest	9,792	5,545	-	13,954	-	10,936	40,227
Notes	-	360	-	-	132,010	-	132,370
Contracts	-	-	-	-	40,809	-	40,809
Other	-	-	-	20,720	5,228	9,474	35,422
Gross receivables	9,802	6,151	18,634	257,197	246,049	40,728	578,561
Allowance for uncollectibles	-	-	(228)	(22,321)	(11,538)	(1,353)	(35,440)
Total receivables, net	$ 9,802	$ 6,151	$ 18,406	$ 234,876	$ 234,511	$ 39,375	$543,121

Receivables reported for fiduciary funds at June 30, 2004, were as follows (in thousands):

	Private Purpose Trust	Agency	Investment Trust
Fiduciary fund activities:			
General accounts	$ 570	$ 7,165	$ 231
Contracts	122	-	-
Other	239	200,871	-
Gross receivables	931	208,036	231
Allowance for uncollectibles	-	(103,542)	-
Total receivables, net	$ 931	$ 104,494	$ 231

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2003, and the Oregon Health and Science University (OHSU) at June 30, 2004, were as follows (in thousands):

	SAIF	OHSU
Discretely presented component units:		
Patient accounts	$ -	$ 179,342
Premiums	136,596	-
Interest	20,751	2,031
Student loans	-	22,707
Broker receivable – investment sales	130,616	-
Other	10,707	18,313
Gross receivables	298,670	222,393
Allowance for uncollectibles	(1,961)	(87,517)
Total receivables – SAIF and OHSU, net	$ 296,709	$ 134,876

B. Payables. The following tables disaggregate payables reported in the fund financial statements as Accounts and Interest Payable and Contracts, Mortgages and Notes Payable.

Payables reported for governmental activities at June 30, 2004, were as follows (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Other	Total	Internal Service
Governmental activities:							
General accounts	$ 131,230	$ 124,151	$ 95,901	$ 20,783	$ 74,725	$ 446,790	$ 14,316
Interest	1	-	-	-	22	23	940
Taxes	6	-	-	-	-	6	-
Contracts	-	-	112	-	247	359	739
Loans	-	-	-	-	-	-	100
Total payables	$ 131,237	$ 124,151	$ 96,013	$ 20,783	$ 74,994	$ 447,178	$ 16,095

Payables reported for business-type activities at June 30, 2004, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities:							
General accounts	$ 896	$ 13,283	$ 7,565	$ 13,368	$ 79,463	$ 24,184	$ 138,759
Interest	32,206	-	-	-	8,051	8,229	48,486
Loans	5,716	-	-	-	-	-	5,716
Notes	-	-	-	-	394	-	394
Prizes	-	-	29,174	-	-	-	29,174
Broker fees	-	-	530	-	-	-	530
Total payables	$ 38,818	$ 13,283	$ 37,269	$ 13,368	$ 87,908	$ 32,413	$ 223,059

Payables reported for fiduciary funds at June 30, 2004, were as follows (in thousands):

	Pension Trust	Private Purpose Trust	Agency
Fiduciary fund activities:			
General accounts	$ 297,454	$ 196	$ 10
Broker payable for investment purchases	1,802,743	32,498	-
Mortgages	-	628	-
Total payables	$ 2,100,197	$ 33,322	$ 10

Payables reported for the SAIF Corporation (SAIF) at December 31, 2003, and the Oregon Health and Science University (OHSU) at June 30, 2004, were as follows (in thousands):

	SAIF	OHSU
Discretely presented component units:		
General accounts	$ 19,438	$ 18,707
Contracts	-	46,628
Reinsurance	2,377	-
Broker payable for investment purchases	51,952	-
Premium taxes	13,154	-
Total payables – SAIF and OHSU	$ 86,921	$ 165,335

4. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 by a joint venture agreement. MUSL members include: the Arizona Lottery, California Lottery, Connecticut Lottery Corporation, Colorado Lottery, District of Columbia Lottery and Charitable Games Control Board, Delaware State Lottery, Hoosier Lottery, Idaho Lottery, Iowa Lottery, Kansas Lottery, Kentucky Lottery Corporation, Louisiana Lottery Corporation, Maine Lottery, Minnesota State Lottery, Missouri Lottery, Montana Lottery, Nebraska Lottery, New Hampshire Sweepstakes Commission, New Mexico Lottery Authority, North Dakota Lottery, Oregon Lottery, Pennsylvania Lottery, Rhode Island Lottery, South Carolina Education Lottery, South Dakota Lottery, Tennessee Education Lottery, Vermont Lottery, U.S. Virgin Islands Lottery, West Virginia Lottery, and the Wisconsin Lottery.

MUSL is governed by a Board of Directors, on which each member lottery is represented. The Board's responsibilities to administer multi-state lottery games are performed by a Product Group, advisory committees, or panels staffed by officers and independent contractors as appointed by the Board. Each member lottery pays an allocated share of MUSL's operating expenses. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2004 was $200,019.

The Board and Product Group determine a percentage of gross MUSL game sales that are aggregated in a common prize pool. The revenues derived by each member lottery, that are not allocated to the common prize pool and MUSL's operating expenses, will be the revenue of that member lottery. Upon termination of the MUSL's existence, if such termination should occur, the member lottery would receive any proceeds determined available for distribution by the Board. As of June 30, 2004, the Oregon Lottery had $2.3 million on deposit with the MUSL for payment of the Oregon Lottery’s share of MUSL prize reserve and annual operating expenses.

Complete separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322-7919.

5. CAPITAL ASSETS

A. Primary Government.

Capital Asset Activity. Capital asset activity for the primary government for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,545,762	$ 32,250	$ 4,686	$ 1,573,326
Construction in Progress	647,347	219,578	49,728	817,197
Works of Art and Historical Treasures	610	-	-	610
Total capital assets not being depreciated	2,193,719	251,828	54,414	2,391,133
Capital assets being depreciated:				
Buildings, Property, and Equipment	1,953,768	116,099	103,646	1,966,221
Infrastructure	13,755,889	295,623	128,696	13,922,816
Total capital assets being depreciated	15,709,657	411,722	232,342	15,889,037
Less accumulated depreciation for:				
Buildings, Property, and Equipment	719,862	77,651	29,668	767,845
Infrastructure	6,529,641	590,005	63,613	7,056,033
Total accumulated depreciation	7,249,503	667,656	93,281	7,823,878
Total capital assets being depreciated, net	8,460,154	(255,934)	139,061	8,065,159
Governmental activities capital assets, net	$ 10,653,873	$ (4,106)	$ 193,475	$ 10,456,292

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 49,808	$ 6,302	$ 165	$ 55,945
Construction in Progress	236,076	146,125	237,593	144,608
Works of Art and Historical Treasures	59,007	1,598	2,250	58,355
Total capital assets not being depreciated	344,891	154,025	240,008	258,908
Capital assets being depreciated:				
Buildings, Property, and Equipment	1,769,097	313,316	55,521	2,026,892
Infrastructure	33,199	15,466	-	48,665
Total capital assets being depreciated	1,802,296	328,782	55,521	2,075,557
Less accumulated depreciation for:				
Buildings, Property, and Equipment	954,923	73,703	27,360	1,001,266
Infrastructure	24,269	8,365	907	31,727
Total accumulated depreciation	979,192	82,068	28,267	1,032,993
Total capital assets being depreciated, net	823,104	246,714	27,254	1,042,564
Business-type activities capital assets, net	$ 1,167,995	$ 400,739	$ 267,262	$ 1,301,472

	Beginning Balance	Increases	Decreases	Ending Balance
Fiduciary fund activities:				
Capital assets not being depreciated:				
Land	$ 1,639	$ -	$ -	$ 1,639
Works of Art and Historical Treasures	25	-	-	25
Total capital assets not being depreciated	1,664	-	-	1,664
Capital assets being depreciated:				
Buildings, Property, and Equipment	11,241	8,630	155	19,716
Infrastructure	9,226	-	-	9,226
Total capital assets being depreciated	20,467	8,630	155	28,942
Less accumulated depreciation for:				
Buildings, Property, and Equipment	3,786	657	148	4,295
Infrastructure	6,411	439	-	6,850
Total accumulated depreciation	10,197	1,096	148	11,145
Total capital assets being depreciated, net	10,270	7,534	7	17,797
Fiduciary fund activities capital assets, net	$ 11,934	$ 7,534	$ 7	$ 19,461

Depreciation Expense. Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental activities:	
Education	$ 503
Human Resources	1,923
Public Safety	26,811
Economic and Community Development	781
Natural Resources	15,243
Transportation	598,669
Consumer and Business Services	763
Administration	3,808
Legislative	633
Judicial	803
Subtotal	649,937
Internal Service funds	17,148
Total depreciation expense – governmental activities	$ 667,085
Business-type activities:	
Housing and Community Services	$ 123
Veterans' Loan	409
Lottery Operations	4,420
University System	67,495
Other Business-type Activities	3,437
Total depreciation expense – business-type activities	$ 75,884
Fiduciary fund activities:	
Common School Fund	$ 525
Pension Trust	571
Total depreciation expense – fiduciary activities	$ 1,096

Construction Commitments. The State has active construction projects as of June 30, 2004, which will be funded either through general fund appropriation, federal grants, lottery resources, or other funding sources as noted in the schedule below. At year end, the State's construction commitments with contractors are as follows (in thousands):

Project	Spent-to-Date	Remaining Commitment	Remaining Commitment Source of Funds			
			General	Federal	Lottery	Other
Emergency coordination facility	$ 3,316	$ 45,366	$ -	$ 44,371	$ 23	$ 972
Public safety training facility	6,386	24,054	-	-	-	24,054
Military facilities	6,589	9,050	-	5,446	-	3,604
Forestry headquarters buildings	9,917	12,373	-	72	-	12,301
State Park facilities	822	2,698	-	1,263	1,365	70
Prison construction and upgrades	12,439	17,944	-	-	-	17,944
University building construction and upgrades	461,259	395,913	11,565	-	2,677	381,671
Road and bridge construction	639,576	588,700	-	341,400	-	247,300
Upgrade and maintenance of various facilities	19,581	10,565	-	664	487	9,414
Total	$ 1,159,885	$ 1,106,663	$ 11,565	$ 393,216	$ 4,552	$ 697,330

Collections Not Capitalized. Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices, printing equipment displayed at the Salem Print Plant, historic documents displayed at the Oregon State Archives, a museum of military artifacts at Camp Withycombe in Clackamas, Oregon, a collection of historic buildings, furniture, paintings, and ancestral artifacts displayed at various state parks, and a collection of art work portraying various Oregon locals displayed at the Oregon Liquor Control Commission headquarters. They have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are:

1. The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
2. The collections are protected, kept unencumbered, cared for, and preserved; and
3. The collections are subject to state agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

B. Discretely Presented Component Units.

Activity for SAIF Corporation for the year ended December 31, 2003, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 2,922	$ -	$ -	$ 2,922
Total capital assets not being depreciated	2,922	-	-	2,922
Capital assets being depreciated:				
Buildings, Property, and Equipment	48,515	1,653	2,436	47,732
Total capital assets being depreciated	48,515	1,653	2,436	47,732
Less accumulated depreciation for:				
Buildings, Property, and Equipment	26,252	3,129	2,357	27,024
Total accumulated depreciation	26,252	3,129	2,357	27,024
Total capital assets being depreciated, net	22,263	(1,476)	79	20,708
SAIF Corporation capital assets, net	$ 25,185	$ (1,476)	$ 79	$ 23,630

Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 15,364	$ 33,677	$ -	$ 49,041
Construction in Progress	29,977	88,150	12,361	105,766
Total capital assets not being depreciated	45,341	121,827	12,361	154,807
Capital assets being depreciated:				
Buildings, Property, and Equipment	1,091,617	45,174	12,847	1,123,944
Total capital assets being depreciated	1,091,617	45,174	12,847	1,123,944
Less accumulated depreciation for:				
Buildings, Property, and Equipment	455,285	63,883	5,243	513,925
Total accumulated depreciation	455,285	63,883	5,243	513,925
Total capital assets being depreciated, net	636,332	(18,709)	7,604	610,019
OHSU capital assets, net	$ 681,673	$ 103,118	$ 19,965	$ 764,826

6. LEASES

A. Operating Leases. Operating leases are rental agreements where the payments are chargeable as rent and recorded as services and supplies expenditures. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of lease expirations. It is expected these leases will be replaced with leases that have higher rental rates due to inflation. Rental costs for such leases for the year ended June 30, 2004, for the primary government, were $78.4 million and for the component units were $10.9 million.

The following schedule summarizes the future minimum lease payments as of June 30, 2004 (in thousands):

Year Ending June 30,	Primary Government	Component Units
2005	$ 73,182	$ 10,222
2006	62,154	9,338
2007	51,064	13,364
2008	42,177	11,248
2009	25,474	10,863
2010-2014	54,220	30,556
2015-2019	8,036	17,838
2020-2024	68	-
2025-2029	68	-
2030-2034	68	-
2035-2039	68	-
2040-2044	68	-
2045-2049	61	-
Total future minimum lease payments	$ 316,708	$ 103,429

B. Capital Leases. Capital leases are treated similar to purchases on contract. The property is capitalized at the present value when the lease is incurred and a corresponding liability is recorded. The liability for capital leases of property is included in the accompanying financial statements. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year.

The assets acquired through capital leases are as follows (in thousands):

Asset Class	Governmental Activities	Business-type Activities	Component Units
Buildings, Property and Equipment	$ 113	$ 754	$ 8,504
Less Accumulated Depreciation	(38)	(166)	(5,785)
Total	$ 75	$ 588	$ 2,719

The following schedule summarizes the future minimum lease payments and net present value of these minimum lease payments as of June 30, 2004 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities	Component Units
2005	$ 32	$ 262	$ 999
2006	8	148	999
2007	7	134	999
2008	-	29	999
2009	-	21	999
2010-2014	-	-	1,446
Total future minimum lease payments	47	594	6,441
Less amounts representing interest	-	(67)	(1,748)
Present value of minimum lease payments	$ 47	$ 527	$ 4,693

C. Lease Receivables. The State receives income from operating leases on land, property, and equipment that is leased to non-state entities. Rental income received was $5.8 million for the year ended June 30, 2004 on assets valued at over $26.6 million, net of $15.3 million in accumulated depreciation. Minimum future lease revenue for non-cancelable operating leases at June 30, 2004 was (in thousands):

Year Ending June 30,	Primary Government
2005	$ 4,506
2006	4,262
2007	3,028
2008	1,762
2009	1,509
2010-2014	2,812
2015-2019	1,685
2020-2024	1,125
2025-2029	427
2030-2034	343
2035-2039	343
2040-2044	218
2045-2049	4
Total future minimum lease revenue	$ 22,024

7. DONOR-RESTRICTED ENDOWMENTS

Oregon University System

Oregon Revised Statute 351.130 provides the Oregon University System (OUS) with the authority to use interest income, dividends, or profits of endowments specifically for the higher education institution receiving the gift. Any donee restrictions must also be abided. Current OUS Board policy is to annually distribute, for spending purposes, 4.0 percent of the five-year moving average of the market value of the endowment fund and to maintain the purchasing power of the funds as nearly as prudent investment permits. Securities may be sold to provide for the income needs, however, the original corpus of endowments may not be spent. For the year ended June 30, 2004, the net amount of appreciation available for authorization for expenditure was $14.6 million. The amount of net appreciation is reported in the University System Fund either as part of nonexpendable net assets restricted for donor purposes, or as part of expendable net assets restricted for donor purposes, depending on the terms of the donation.

Oregon Health and Science University

Oregon Revised Statutes 128.320, 128.325, and 128.340 provide the Oregon Health and Science University (OHSU) with the authority to use the net appreciation of restricted endowments as established by the donee. Current OHSU Board policy is to allow distributions of 5.0 percent of the three-year moving average of the market value of the endowment pool. For the year ended June 30, 2004, the net amount of appreciation available for authorization for expenditure was $32.4 million. The amount of net appreciation is reported as part of expendable net assets restricted for education.

8. SHORT-TERM DEBT

During the year, the State issued tax anticipation notes to manage the temporary cash flow deficits that resulted when the timing of required expenditures did not coincide with the timing of the collection of taxes and other revenues. The proceeds were deposited to the general fund and were used to pay authorized expenditures of the 2003-2005 biennium.

Oregon Department of Forestry used a line of credit to manage the cash needs of the Emergency Fire Program during the peak fire season. The $15.0 million line of credit was obtained from the Oregon State Treasury and had a variable rate of interest based on the earnings rate of the Oregon Short-term Fund plus one percent.

Short-term debt activity for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Issued	Repaid	Ending Balance
Governmental activities:				
Tax anticipation notes	$ -	$ 750,906	$ -	$ 750,906
Forestry line of credit	-	15,000	15,000	-
Total governmental activities	$ -	$ 765,906	$ 15,000	$ 750,906

9. LONG-TERM LIABILITIES

A. General Obligation Bonds. The State issues general obligation bonds to provide funds for a variety of projects as authorized by the Oregon Constitution. General obligation bonds are secured by a pledge of the full faith, credit, and taxing power of the State.

Specific provisions of the Oregon Constitution authorize general obligation debt to be issued for governmental activities. Article XI-G provides authorization to finance buildings and projects for community colleges. Debt service requirements for community colleges are financed through an appropriation from the General Fund.

Obligations issued for highway construction pursuant to article XI, section 7, are fully self-supporting. Article XI-H authorizes the financing of pollution abatement and control facilities as well as pollution control and disposal activities. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, assessments, user charges, and other fees. Article XI-L provides authorization to finance capital costs of the Oregon Health and Science University. Article XI-O provides authorization to finance pension liabilities through the issuance of general obligation bonds.

The Oregon Constitution also authorizes general obligation debt to be used for business-type activities. Article XI-A authorized the creation of the Oregon War Veterans' Fund to finance farm and home loans for eligible veterans. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2). Article XI-J provides authorization to finance loans for the development of small-scale local energy projects. Issuance of general obligation bonds to finance higher education building projects is authorized in article XI-F (1). The preceding bonds of business-type activities are fully self-supporting. Article XI-G authorizes financing of higher education facilities and institution activities. Debt service requirements for these higher education obligations are financed through an appropriation from the General Fund. Financing of loans for water development projects is authorized in article XI-I (1). Certain provisions of the Water Resources general obligation bond indenture conflict with State statutes. Upon the advice of the Attorney General, the method of handling investment interest is in compliance with the statutes rather than the bond indenture.

The following schedule shows the debt service requirements for general obligation bonds as of June 30, 2004 (in thousands):

	Governmental Activities		Business-type Activities	
Year Ending June 30,	Principal	Interest	Principal	Interest
2005	$ 8,145	$ 130,063	$ 162,687	$ 88,890
2006	11,210	129,702	112,380	81,749
2007	13,725	129,279	109,335	76,204
2008	18,605	128,752	107,895	70,295
2009	24,695	128,024	82,586	64,893
2010-2014	232,495	617,416	222,511	290,900
2015-2019	476,900	534,906	487,808	229,744
2020-2024	843,260	362,846	311,494	131,367
2025-2029	712,870	86,876	200,520	66,022
2030-2034	-	-	102,070	25,881
2035-2039	-	-	29,070	11,325
2040-2044	-	-	25,705	2,862
Total	$ 2,341,905	$ 2,247,864	$ 1,954,061	$ 1,140,132

B. Revenue Bonds. Authority for the State to issue revenue bonds is granted in the Oregon Revised Statutes (ORS). Revenue bonds are secured by a pledge of revenues derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

The State is authorized in ORS 286.560 through 286.580 and 348.716 to issue revenue bonds that are supported by unobligated net lottery proceeds. To date, these lottery revenue bonds have been issued for infrastructure improvements, state parks, expansion and refurbishment of school facilities, light rail transportation, improvement of state fair facilities, and economic development in rural and distressed communities. Lottery revenue bonds have been issued for both governmental and business-type activities.

Highway user tax bonds, authorized by ORS 367.615, are issued by the Department of Transportation for governmental activities to build and maintain public roads. Debt service payments for these bonds are funded by highway user taxes.

ORS 565.095 authorizes the issuance of revenue bonds for capital construction and improvements for the State Fair and Exposition Center. Revenues from state fair activities support these bonds. The Housing and Community Services Department is authorized by ORS 456.645 to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees as well as rental revenues support these bonds. The Economic and Community Development Department is authorized in ORS 285B.467 to 285B.479 to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund and is authorized in ORS 285B.572 to 285B.578 to issue revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds for both of these activities. All of these bonds for business-type activities are self-supporting.

The Public Employees Retirement System guarantees the bonds reported in the Pension Trust Fund. In 1992, PERS entered into an agreement to guarantee $50.0 million in Pamcorp taxable revenue bonds. The company ceased operations in October 1993. The Pension Trust Fund has been making payments since October 1994.

Authority is granted in ORS 353.340 for the Oregon Health and Science University (OHSU), a discretely presented component unit of the State, to issue revenue bonds for the construction and refurbishment of facilities or the acquisition of equipment in accordance with ORS 288.805 to 288.945. These revenue bonds are payable from the revenues of OHSU.

The following schedule shows the debt service requirements for revenue bonds as of June 30, 2004 (in thousands):

	Governmental Activities		Business-type Activities		Pension Trust Fund		Discretely Presented Component Units	
Year Ending June 30,	Principal	Interest	Principal[1,2]	Interest	Principal	Interest	Principal[3]	Interest
2005.....	$ 49,421	$ 36,265	$ 456,099	$ 66,950	$ 1,000	$ 3,980	$ 6,575	$ 19,926
2006.....	49,297	34,059	37,029	60,378	1,100	3,897	7,095	19,718
2007.....	50,980	32,076	38,402	58,839	1,200	3,805	7,255	19,510
2008.....	54,019	29,881	38,881	57,201	1,300	3,704	10,660	19,244
2009.....	55,509	27,486	40,132	55,482	1,400	3,596	11,267	19,761
2010-2014.....	265,795	99,594	204,480	242,376	9,100	18,428	57,057	96,017
2015-2019.....	135,473	42,713	200,812	191,887	13,600	8,668	66,509	107,606
2020-2024.....	62,080	17,731	218,730	137,175	15,600	3,312	88,457	96,574
2025-2029.....	39,000	3,065	235,540	75,821	-	-	145,185	47,170
2030-2034.....	-	-	160,635	23,243	-	-	143,430	13,566
2035-2039.....	-	-	16,555	5,624	-	-	-	-
2040-2044.....	-	-	12,880	1,807	-	-	-	-
2045-2049.....	-	-	165	4	-	-	-	-
Total.....	$ 761,574	$ 322,870	$ 1,660,340	$ 976,787	$ 44,300	$ 49,390	$ 543,490	$ 459,092

[1] Includes bonds with a variable interest rate based on the one-month London InterBank Offered Rate (LIBOR) plus 0.4% not to exceed 11.0% for $5.9 million and not to exceed 11.5% for $7.3 million. The interest rate at the end of the year for those bonds was 1.5%.

[2] Includes bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agent, not to exceed 12.0% for $30.0 million. The interest rate at the end of the year was 1.1%.

[3] Includes $101.9 million of bonds with a variable rate of interest adjusted every 35 days, with a rate at the end of the year of 1.3%. Also includes $50.0 million of bonds with a variable rate of interest adjusted every 35 days, with a rate at the end of the year of 1.2%. In addition, includes $9.9 million of bonds with a variable rate of interest adjusted weekly, with a rate at the end of the year of 1.1%.

C. Certificates of Participation. ORS 283.085 to 283.092 authorizes the State to enter into financing agreements through the issuance of certificates of participation. The State has issued certificates of participation to provide funds for the acquisition of computer systems, the acquisition of telecommunication systems, and for the acquisition, construction, or remodeling of State facilities. Certificates of participation have been issued for both governmental and business-type activities.

The following schedule shows the debt service requirements for certificates of participation as of June 30, 2004 (in thousands):

	Governmental Activities		Business-type Activities		Pension Trust Fund	
Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 37,024	$ 37,291	$ 2,666	$ 1,376	$ 2,275	$ 583
2006	38,881	35,655	2,449	1,260	2,300	561
2007	37,890	33,932	1,610	1,164	2,365	495
2008	40,331	32,267	2,199	1,048	2,440	415
2009	38,546	30,349	1,099	924	2,520	334
2010-2014	207,053	123,081	6,257	2,784	2,620	933
2015-2019	198,574	71,706	1,636	170	1,930	206
2020-2024	141,710	28,155	-	-	-	-
2025-2029	37,535	3,405	-	-	-	-
Total	$ 777,544	$ 395,841	$ 17,916	$ 8,726	$ 16,450	$ 3,527

D. General Appropriation Bonds. During the 2003 legislative session, Senate Bill 856 authorized the State to issue general appropriation bonds. The State has issued general appropriation bonds for general government activities.

The following schedule shows the debt service requirements for general appropriation bonds as of June 30, 2004 (in thousands):

	Governmental Activities	
Year Ending June 30,	Principal	Interest
2005	$ 22,095	$ 19,723
2006	23,600	19,151
2007	25,625	18,319
2008	27,950	17,123
2009	52,210	15,188
2010-2014	280,080	32,475
Total	$ 431,560	$ 121,979

E. Changes in Long-Term Liabilities. The following schedule summarizes the changes in long-term liabilities for governmental activities for the year ended June 30, 2004 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds/certificates payable:					
General obligation bonds	$ 158,455	$ 2,204,410	$ 20,960	$ 2,341,905	$ 8,145
Revenue bonds	803,504	119,691	161,621	761,574	49,421
Certificates of participation	776,884	38,615	37,955	777,544	37,024
General appropriation bonds	431,560	-	-	431,560	22,095
Less deferred amounts:					
For issuance discounts	(989)	(171)	(51)	(1,109)	-
For issuance premiums	68,489	16,522	6,698	78,313	-
On refunding	(18,129)	(16,673)	(5,373)	(29,429)	-
Total bonds/certificates payable	2,219,774	2,362,394	221,810	4,360,358	116,685
Other liabilities:					
Obligations under capital lease	79	-	32	47	32
Claims and judgments	1,127,753	90,498	34,948	1,183,303	124,190
Arbitrage rebate	2,051	409	1,308	1,152	1,021
Contracts, mortgages and notes	783	1,200	784	1,199	1,199
Total other liabilities	1,130,666	92,107	37,072	1,185,701	126,442
Total governmental activity long-term liabilities	$ 3,350,440	$ 2,454,501	$ 258,882	$ 5,546,059	$ 243,127

Internal service funds predominantly serve the governmental funds; thus, long-term liabilities for them are included as part of the totals for governmental activities. The claims and judgments liability will generally be liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The arbitrage rebate liability will generally be liquidated through the Revenue Bond Fund, the Business Development Fund, Central Services Fund and the remainder by other governmental funds and internal service funds. The liability for contracts, mortgages, and notes will generally be liquidated through internal service funds.

The following schedule summarizes the changes in long-term liabilities for business-type activities for the year ended June 30, 2004 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds/certificates payable:					
General obligation bonds	$ 2,091,668	$ 224,300	$ 361,907	$ 1,954,061	$ 162,757
Revenue bonds	1,569,740	568,120	477,520	1,660,340	456,099
Certificates of participation	25,011	-	7,095	17,916	2,666
Less deferred amounts:					
For issuance discounts	(6,193)	(104)	(1,178)	(5,119)	-
For issuance premiums	6,382	17,042	1,449	21,975	-
On refunding	(4,063)	(14,301)	(764)	(17,600)	-
Accreted interest	67,447	10,384	6,751	71,080	-
Total bonds/certificates payable	3,749,992	805,441	852,780	3,702,653	621,522
Other liabilities:					
Obligations under capital lease	897	104	474	527	233
Lottery prize awards	114,237	9,953	15,846	108,344	13,051
Arbitrage rebate	3,106	1,088	3,002	1,192	441
Contracts, mortgages and notes	6,503	3,188	3,237	6,454	3,001
Trust funds	18,812	815,156	802,437	31,531	30,952
Total other liabilities	143,555	829,489	824,996	148,048	47,678
Total business-type activity long-term liabilities.	$ 3,893,547	$ 1,634,930	$ 1,677,776	$ 3,850,701	$ 669,200

The following schedule summarizes the changes in long-term liabilities for fiduciary fund activities for the year ended June 30, 2004 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities:					
Bonds/certificates payable:					
Revenue bonds	$ 45,200	$ -	$ 900	$ 44,300	$ 1,000
Certificates of participation	6,935	9,865	350	16,450	2,275
Less deferred amounts:					
For issuance premiums	350	78	24	404	-
On refunding	(340)	-	(23)	(317)	-
Total bonds/certificates payable	52,145	9,943	1,251	60,837	3,275
Other liabilities:					
Contracts, mortgages and notes	959	-	331	628	18
Total other liabilities	959	-	331	628	18
Total fiduciary fund activity long-term liabilities…	$ 53,104	$ 9,943	$ 1,582	$ 61,465	$ 3,293

The following schedule summarizes the changes in long-term liabilities for the SAIF Corporation for the year ended December 31, 2003, and for the Oregon Health and Science University for the year ended June 30, 2004 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component units:					
Bonds/certificates payable:					
Revenue bonds	$ 549,655	$ -	$ 6,165	$ 543,490	$ 6,575
Less deferred amounts:					
For issuance discounts	(5,145)	-	(286)	(4,859)	-
For issuance premiums	1,177	-	50	1,127	-
For accreted interest	13,815	2,321	-	16,136	-
Total bonds/certificates payable - SAIF and OHSU	559,502	2,321	5,929	555,894	6,575
Other liabilities:					
Obligations under capital lease	5,232	-	539	4,693	543
Claims and judgments	2,285,572	325,578	246,938	2,364,212	167,328
Contracts, mortgages and notes	61,345	-	14,717	46,628	4,368
Total other liabilities - SAIF and OHSU	2,352,149	325,578	262,194	2,415,533	172,239
Total long-term liabilities - SAIF and OHSU	$ 2,911,651	$ 327,899	$ 268,123	$ 2,971,427	$ 178,814

F. Demand Bonds. Included in long-term debt at June 30, 2004, is $370.0 million of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G, and H. The bonds are general obligations of the State and are payable from revenues and reserves of the Veterans' Loan Program. The bondholder may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department of Veterans' Affairs Remarketing Agents (J.P. Morgan Securities Inc. and Morgan Stanley) are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis. The interest rate borne by each series of bonds will be determined by the designated Remarketing Agent for such bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement (SBPA). Under the SBPA, JP Morgan Chase Bank will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2004. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher). If the tender advance is in default, interest would accrue at the bank's base rate plus 1 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department of Veterans' Affairs elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days' of accrued interest calculated at a rate of 14 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. As of

June 30, 2004, the Department of Veterans' Affairs is required to pay a yearly commitment fee, payable quarterly in arrears, at a rate of 0.15 percent per annum, applied to the purchase commitment.

The present purchase commitments by the banks will remain in effect to the earlier of (a) June 22, 2007 (scheduled expiration date), unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate or a fixed (or term) rate; (c) the date on which no bonds of a given series are outstanding; (d) the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA.

G. No-Commitment Debt. No-commitment debt refers to debt issued to finance public purpose expenditures intended for beneficial ownership by private entities. Such debt bears the name of the State but is secured solely by the credit of the private entity and usually is serviced and administered by a trustee independent of the State. The State has no obligation for payment of this debt. Accordingly, this debt is not reported in the accompanying financial statements.

The following schedule shows no-commitment debt as of June 30, 2004 (in thousands):

Primary Government	
Economic and Community Development Department	$ 692,580
Housing and Community Services Department	84,833
Oregon Facilities Authority	523,603
Total Primary Government	1,301,016
Discretely Presented Component Units	
OHSU	115
Total No-Commitment Debt	$ 1,301,131

H. Debt Refundings. Occasionally, the State issues new bonds to extinguish the debt of previously issued bonds in order to take advantage of lower interest rates. In instances of advanced refunding, the money from the sale of these bonds is placed in an irrevocable trust to provide for all future debt service payments on the old bonds. The amount of these issues has provided funds to pay the interest and principal when due on the refunded bonds to and including the dates irrevocably fixed for redemption and to pay the principal amounts of the old bonds to be redeemed on such irrevocable redemption dates. The trust account assets and liabilities for the defeased bonds are not included in the accompanying financial statements.

The following provides a brief description of the current/advance refunding issues that occurred between July 1, 2003, and June 30, 2004:

On August 1, 2003, the Housing and Community Services Department issued $17.1 million of Elderly and Disabled Housing Bonds with an average interest rate of 4.3 percent. These bonds refunded $17.1 million of previously issued Elderly and Disabled Housing Bonds from various series with an average interest rate of 6.2 percent. The current refunding was undertaken to reduce the total debt service payments over the next 21 years by $3.9 million and resulted in an economic gain of $2.1 million.

On September 23, 2003, the Department of Environmental Quality issued $7.9 million in 2003 Series B General Obligation Bonds with an average interest rate of 3.4 percent. These bonds were issued to refund $7.5 million of outstanding general obligation bonds from various series with an average interest rate of 5.5 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 11 years by $0.5 million and resulted in an economic gain of $0.5 million.

On March 3, 2004, the Department of Administrative Services issued $127.8 million in 2004 Series A Lottery Revenue Bonds with an average interest rate of 3.4 percent. These bonds were issued to partially refund $127.9 million of outstanding lottery bonds with an average interest rate of 5.4 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 14 years by $5.3 million and resulted in an economic gain of $2.9 million.

On March 18, 2004, the Oregon University System issued $101.1 million of 2004 Series D and 2004 Series E General Obligation Bonds with an average interest rate of 4.9 percent. These bonds refunded $98.7 million of general obligation bonds with an average interest rate of 5.5 percent. The current and advance refunding was undertaken to reduce the total debt service payments over the next 16 years by $5.2 million and resulted in an economic gain of $4.2 million.

I. Defeased Debt. The following schedule summarizes the amount of bonds and certificates of participation outstanding that are considered defeased as of June 30, 2004 (in thousands):

Governmental Activities	
Department of Administrative Services	$ 7,875
Department of Corrections	417,125
Oregon Youth Authority	20,030
Department of Education	84,100
Department of Fish and Wildlife	525
Department of Transportation	978
Total Governmental Activities	530,633
Business-type Activities	
Economic and Community Development Department	520
Oregon University System	167,847
State Fair and Expo Center	4,061
Water Resources Department	10,315
Total Business-type Activities	182,743
Pension Trust Fund	
Public Employees Retirement System	5,725
Total Defeased Bonds and Certificates of Participation	$ 719,101

J. Arbitrage Rebate Liability. The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government.

The following schedule identifies outstanding arbitrage rebate liabilities as of June 30, 2004 (in thousands):

Governmental Activities		
Department of Administrative Services	$	200
Economic and Community Development Department		218
Military Department		20
Department of Corrections		95
Department of Environmental Quality		2
Oregon Youth Authority		45
Department of Employment		3
Department of Education		506
Department of Forestry		21
Parks and Recreation Department		42
Total Governmental Activities		1,152
Business-type Activities		
Department of Veterans' Affairs		385
Oregon University System		158
State Fair and Expo Center		54
Housing and Community Services Department		595
Total Business-type Activities		1,192
Total Arbitrage Rebate Liability	$	2,344

10. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2004 consisted of the following (in thousands):

Due To Other Funds

Due From Other Funds	General	Health and Social Services	Public Transportation	Environmental Management	Nonmajor Governmental Funds	Lottery Operations	University System	Nonmajor Enterprise Funds	Fiduciary Funds	All Others	Total
General	$ -	$ 3,664	$ 321	$ 15,757	$ 82,501	$ -	$ 14,000	$ 10,914	$ -	$ 11,237	$ 138,394
Health and Social Services	756	-	164	159	8,428	-	44	574	-	-	10,125
Public Transportation	-	-	-	181	-	-	-	-	-	-	181
Environmental Management	72	72	11,097	-	13,790	-	28	-	660	130	25,849
Nonmajor Governmental Funds	3,164	6,483	775	4,013	83,786	115,655	-	1,136	2,139	1,962	219,113
Housing and Community Services	-	-	-	-	26	-	-	-	-	-	26
University System	-	-	-	79	1,822	-	-	6	-	-	1,907
Veterans' Loan	-	-	-	-	-	-	-	-	1	-	1
Nonmajor Enterprise Funds	-	57	1,698	113	1,959	-	-	-	-	5	3,832
Internal Service Funds	41	-	-	129	659	-	-	2	-	3	834
Fiduciary Funds	-	20	-	1,074	-	-	-	178	37,854	-	39,126
Total	$ 4,033	$ 10,296	$ 14,055	$ 21,505	$ 192,971	$ 115,655	$ 14,072	$ 12,810	$ 40,654	$ 13,337	$ 439,388

Advances To Other Funds

Advances From Other Funds	General	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
General	$ -	$ -	$ 1,721	$ 774	$ -	$ 2,495
Health and Social Services	65,000	-	-	-	-	65,000
Environmental Management	-	-	6	3	300	309
Nonmajor Governmental Funds	50,981	1,108	214	-	100	52,403
University System	-	-	16,081	-	-	16,081
Nonmajor Enterprise Funds	-	-	2,281	64	-	2,345
Internal Service Funds	-	-	426	-	-	426
Total	$ 115,981	$ 1,108	$ 20,729	$ 841	$ 400	$ 139,059

Interfund balances result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances to and from other funds are not expected to be repaid within one year.

Interfund transfers reported in the fund financial statements as of June 30, 2004 consisted of the following (in thousands):

	Transfers To Other Funds										
Transfers From Other Funds	General	Health and Social Services	Public Transportation	Environmental Management	Nonmajor Governmental Funds	Lottery Operations	Unemployment Compensation	Nonmajor Enterprise Funds	Fiduciary Funds	All Others	Total
General	$ -	$ -	$ -	$ 3	$ 39,769	$ -	$ -	$ 68,086	$ 30	$ -	$ 107,888
Health and Social Services	8,766	-	4,507	190	41,022	-	-	6,869	393	43	61,790
Environmental Management	8,484	5,390	27,020	-	56,143	-	-	301	5,803	310	103,451
Nonmajor Governmental Funds	11,418	67,094	22,606	28,005	456,528	386,670	20,748	16,670	3,064	6,910	1,019,713
Unemployment Compensation	-	-	-	-	225	-	-	-	-	-	225
University System	345,851	2,675	-	589	8,035	-	-	12	-	-	357,162
Nonmajor Enterprise Funds	96,608	31,778	1,698	98	62,299	-	-	-	-	14,907	207,388
Internal Service Funds	2	279	-	90	637	-	-	1,076	-	-	2,084
Fiduciary Funds	-	107	-	15,090	95	-	-	993	-	-	16,285
Total	$ 471,129	$ 107,323	$ 55,831	$ 44,065	$ 664,753	$ 386,670	$ 20,748	$ 94,007	$ 9,290	$ 22,170	$ 1,875,986

	Transfers To Other Funds	Transfers From Other Funds
Amount per table above	$ 1,875,986	$ 1,875,986
Transfers of general capital assets:		
From Central Services Fund to general governmental capital assets	594	-
To Central Services and Other Internal Service Fund from general governmental capital assets	-	986
Transfer of Compensated Absences Payable from Other Internal Service Fund to general government	1,004	-
Transfers to permanent funds reported as contributions to permanent fund principal	-	4,701
Transfer to Public Employees Defined Benefit Pension Fund	-	2,000,000
Transfers not current financial resources in governmental funds	-	96,406
Total transfers to/from	$ 1,877,584	$ 3,978,079

In the fund financial statements, total transfers to other funds of $1,877,584 thousand are less than total transfers from other funds by $2,100,495 thousand because of the treatment of transfers of capital assets to and from proprietary funds to the general government, the treatment of transfers to permanent funds, the treatment of transfers to the Public Employees Defined Benefit Pension Fund and the treatment of governmental funds transfers not meeting the availability criteria.

During the year, existing capital assets related to governmental funds, with a book value of $121 thousand, were transferred to the Central Services Fund. In addition, existing capital assets related to governmental funds, with a book value of $865 thousand, were transferred to the Other Internal Service Fund. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. However, the Central Services Fund reported a transfer in for the capital resources received. Capital assets of the Central Services Fund, with a book value of $594 thousand, were transferred to capital assets related to governmental funds. Again, no amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. The Central Services Fund did report a transfer out for the capital resources provided.

During the year, part of the Other Internal Service Funds was converted from proprietary to general governmental activities. This required the transfer of $1,004 thousand Compensated Absences Payable to the general government. Amounts were not reported in the governmental funds as the amount did not involve the transfer of financial resources. The Other Internal Service Fund did report a transfer in for the reduction of liability.

The transfer of proceeds of $4,701 thousand from the sale of the Fairview Training Center and Dammasch State Hospital from the State Hospitals Fund was recorded as contributions to permanent funds. Because the financial resources transferred to the permanent fund are required to be maintained in perpetuity, those resources are reported as contributions to permanent fund principal.

During the year, the State issued general obligation pension bonds in order to raise financial resources to reduce the unfunded actuarial pension liability of the State. Proceeds of $2,000,000 thousand from these bonds were transferred From Other Special Revenue Funds to the Public Employees Defined Benefit Pension Fund. The Public Employees Defined Benefit Pension Fund recognized the financial resources received as employer contributions.

Legislation passed during the 2003 legislative session required various funds to transfer excess financial resources to the General Fund. The financial resources were identified as of June 30, 2003, and are required to be transferred by January 1, 2005. Thus, those financial resources were deferred in the General Fund. However, because the financial resources were required to be transferred from current resources, transfers to other funds were reported in various funds as follows: Environmental Management Fund, $15,503 thousand; Health and Social Services Fund, $636 thousand; Public Transportation Fund, $321 thousand; nonmajor governmental funds, $53,916 thousand; Housing and Community Services Fund, $427 thousand; University System Fund, $14,000 thousand; other nonmajor enterprise funds, $793 thousand; and internal service funds, $10,810 thousand, totaling $96,406 thousand.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service or capital construction from the funds collecting the receipts to the appropriate funds, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended June 30, 2004, there were no other significant individual transfers that do not occur on a routine basis, or are inconsistent with the activities of the fund making the transfer, other than those legislatively required as noted above.

11. SEGMENT INFORMATION

The Oregon State Fair and Exposition Center (OSFEC) issued revenue bonds to finance certain capital construction and renovation projects prior to the 1987 Oregon State Fair. These bonds were refinanced in August 1996 in order to obtain a lower interest rate for the years remaining on the issue. Revenues from activities conducted at the OSFEC secure the OSFEC bonds.

Sections 285B.410 through 285B.482 of the Oregon Revised Statutes (ORS) create the Special Public Works Fund and authorize the Oregon Economic and Community Development Department (OECDD) to issue revenue bonds to finance loans to municipalities for infrastructure projects. ORS 285B.560 through 285B.599 establish the Water Fund and authorize OECDD to issue revenue bonds to finance loans to municipalities for safe drinking water projects and waste water system improvement projects. Loan repayments are pledged to repay the outstanding bonds.

Summary financial information for the Oregon State Fair and Exposition Center, the Special Public Works Fund, and the Water Fund for the year ended June 30, 2004 (in thousands) is presented below:

Condensed Balance Sheet	OSFEC	Special Public Works Fund	Water Fund
Assets:			
Due from other funds	$ 1,956	$ -	$ -
Other current assets	5,410	96,479	51,351
Advances to other funds	-	-	100
Capital assets	37,341	-	-
Accumulated depreciation	(13,151)	-	-
Other noncurrent assets	2,597	182,022	76,040
Total assets	$ 34,153	$ 278,501	$ 127,491
Liabilities:			
Due to other funds	$ 173	$ 92	$ 40
Other current liabilities	3,555	10,389	6,373
Advances from other funds	57	-	-
Other noncurrent liabilities	19,799	122,396	62,279
Total liabilities	23,584	132,877	68,692
Net Assets:			
Invested in capital assets, net of related debt	5,646	-	-
Restricted	-	3,424	696
Unrestricted	4,923	142,200	58,103
Total net assets	10,569	145,624	58,799
Total liabilities and net assets	$ 34,153	$ 278,501	$ 127,491

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets	OSFEC	Special Public Works Fund	Water Fund
Loan interest income	$ -	$ 9,282	$ 4,078
Other operating revenue	5,874	1,047	439
Depreciation and amortization	(663)	-	-
Other operating expenses	(6,842)	(8,989)	(6,419)
Operating income (loss)	(1,631)	1,340	(1,902)
Transfers from other funds	2,647	33,500	9,128
Transfers to other funds	(214)	(479)	(56)
Change in net assets	802	34,361	7,170
Beginning net assets (as restated)	9,767	111,263	51,629
Ending net assets	$ 10,569	$ 145,624	$ 58,799

Condensed Statement of Cash Flows	OSFEC	Special Public Works Fund	Water Fund
Net cash provided (used) by:			
Operating activities	$ 952	$ 5,990	$ (13,999)
Noncapital financing activities	2,218	31,315	14,520
Capital and related financing activities	(9,859)	-	-
Investing activities	140	1,564	(835)
Net increase (decrease)	(6,549)	38,869	(314)
Beginning cash and cash equivalents (as restated)	12,091	62,940	50,392
Ending cash and cash equivalents	$ 5,542	$ 101,809	$ 50,078

12. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions. The Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for units of State government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the Public Employees Retirement Board (Board) under the guidelines of Chapters 238 and 238A of the Oregon Revised Statutes, and it provides retirement benefits and cost-of-living adjustments as well as disability, postemployment healthcare, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. All plan assets may legally be used to pay benefits to any of the plan members or beneficiaries for which the assets were accumulated. Participation in the PERS cost-sharing multiple-employer plan is mandatory for units of State government, community colleges, and school districts. PERS is an agent multiple-employer plan for political subdivisions who have not elected to join the State and Local Government Rate Pool. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 2004, PERS had 884 employer members consisting of:

State Agencies	131
Community Colleges	17
School Districts	240
Political Subdivisions	496
	884

The PERS defined benefit and defined contribution retirement plans are reported in a pension trust fund of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Effective July 1, 1996, the Oregon Health and Science University (OHSU) established the University Pension Plan (UPP). The UPP is a defined contribution plan that is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a four-year period.

The 1995 Oregon Legislature enacted legislation authorizing the Oregon University System (OUS) to offer a defined contribution retirement plan as an alternative to PERS. Beginning April 1, 1996, the Optional Retirement Plan (ORP) became available to OUS unclassified faculty and staff who were eligible for PERS. In addition to PERS and ORP, the OUS offers a variety of retirement options including the Teacher's Insurance and Annuity Association and College Retirement Equities Fund, the Federal Civil Service Retirement System, and the Federal Employees Retirement System.

B. Summary of Significant Accounting Policies. The financial statements of PERS are prepared using the accrual basis of accounting. Plan member contributions and employer member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Mortgage loans on real estate and state agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon State Treasury. Investments that do not have an established market are represented at estimated fair value.

C. Funding Policies. The PERS funding policy provides for plan monthly employer contributions at actuarially determined rates. These contributions, coupled with employee contributions, are intended to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute; the Board, based on the required actuarially determined rate, establishes State employer contributions.

The following schedule summarizes the required State employee contributions and the required State employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans, as of July 1, 2003:

	Employee	Employer
State Agencies and Community Colleges	6.0%	11.31%
Judiciary	7.0%	19.39%
School Districts	6.0%	11.11%
Political Subdivisions	6.0%	10.60%

The State employer contributions to PERS for the year ended June 30, 2004, were approximately $2,132.0 million which includes $2.0 billion of payments toward the State's unfunded actuarial liability from the 2001 actuarial valuation. The fiscal year 2004 contributions, less the $2.0 billion, were equal to the required contributions for the year. The State employer contributions to PERS for the years ended June 30, 2003, and 2002 were approximately $195.1 million and $189.4 million respectively, and were equal to the required contributions for each year.

The OHSU Board of Directors determines contribution levels for the UPP. Employer contributions to the plan are 6.0% of salary and employee contributions are an additional 6.0%. Currently OHSU is funding employee contributions. The OHSU employer contributions to the UPP for the years ended June 30, 2004, 2003, and 2002 were approximately $7.5 million, $5.9 million, and $5.0 million respectively, and were equal to the employee contributions for each year.

Under the ORP Tier One, Tier Two and Tier Three, the employee contribution rate is 6.0% and is paid by OUS. The employer contribution rate for the ORP Tier One and Tier Two is 11.31% and for Tier Three is 8.04% as of June 30, 2004. The OUS employer contribution to the ORP for the years ended June 30, 2004, 2003, and 2002 was approximately $12.7 million, $11.8 million, and $10.8 million respectively. The OUS employee contribution to the ORP for the years ended June 30, 2004, 2003, and 2002 was approximately $8.4 million, $7.5 million, and $6.8 million respectively.

13. OTHER POSTEMPLOYMENT BENEFITS

Under Oregon Revised Statute 238.410, the Public Employees Retirement Board (Board), acting through the Public Employees Retirement System (PERS) may contract for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS health care coverage if the member is receiving a retirement allowance or benefit under the PERS. A surviving spouse or dependent of a PERS retiree is eligible to participate if the surviving spouse or dependent was covered under the health plan at the time of the retiree's death.

Oregon Revised Statute 238.420 established the Retirement Health Insurance Account (RHIA) and authorized the payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To qualify, the member must: (1) have eight years or more qualifying service in the PERS system at the time of retirement, or receive a disability allowance as if the member had eight years or more of creditable service in the PERS system, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan.

A surviving spouse or dependent of a deceased PERS retiree who had been eligible to receive the contribution is eligible to receive the subsidy if the individual is receiving a retirement benefit or allowance from PERS, or the individual was insured at the time the member died and the member retired before May 1, 1991.

All PERS employers currently contribute 0.64 percent of covered payroll to fund the RHIA. This contribution is included in the employer contribution rates discussed in Note 12. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027.

Employers' contributions are advance-funded on an actuarially determined basis. The employers' aggregate actual contribution for the year ended June 30, 2004, totaled approximately $40.6 million. The number of active plan RHIA participants totaled 34,599 for the year ended June 30, 2004.

Oregon Revised Statute 238.415 established the Retirement Health Insurance Premium Account (RHIPA) and requires the Board on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the Board and health

insurance premiums paid by State employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired State employees. Retired State employees are qualified to receive this benefit if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

A surviving spouse or dependent of a deceased retired State employee is eligible to receive the subsidy if he or she is receiving a retirement benefit or allowance from PERS or was insured at the time the member died and the member retired on or after September 29, 1991.

For State agencies, the actuarial valuation as of December 31, 2001, includes 0.16 percent of PERS covered salaries to fund the RHIPA. This rate went into effect July 1, 2003. The number of active plan RHIPA participants totaled 889 for the year ended June 30, 2004. State employer contributions for the year ended June 30, 2004, totaled approximately $3.1 million.

The postemployment retirement health care benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2001. Significant assumptions used in the actuarial update include: a rate of return on the investment of present and future assets of 8.0 percent per annum, projected salary increases, and a health cost inflation adjustment. However, there is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in health care costs.

14. DEFERRED COMPENSATION PLANS

A. Deferred Compensation Fund. ORS 243.411 established the Deferred Compensation Fund. ORS 243.400 to 243.507 established and provided for PERS to administer the Deferred Compensation funds with the Oregon Savings Growth Plan (State Plan). The State Plan is a benefit available to eligible State employees. To participate, an employee enters into an individual agreement with the State deferring current earnings to be paid at a future date. The Board, as trustee of the assets, contracts with Citistreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain participant records. The Oregon State Treasury, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. Activity of the State Plan is accounted for in a pension trust fund. As of June 30, 2004, the fair value of investments was $672.4 million.

B. SAIF Corporation Deferred Compensation Plan. SAIF Corporation administers a deferred compensation plan that is available to SAIF employees (SAIF Plan). Employees may enter into an individual agreement with SAIF Corporation deferring current earnings to be paid at a future date. The SAIF Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or their beneficiaries. The plan is administered in compliance with Internal Revenue Code Section 457(g). The plan assets and the corresponding liability are not reported in the SAIF Corporation balance sheet at December 31, 2003.

Participants in both the State Plan and the SAIF Plan are not required to pay federal or State income taxes on the deferred earnings until those earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances is met: termination by reason of death; disability; resignation; retirement; unforeseeable emergency; or by requesting a de minimis distribution from inactive accounts valued less than $5,000. Payments to participants may be made over a period not to exceed the life expectancy of the participant and/or alternate payee. Employees of education institutions may participate in both the State Plan and 403(b) tax-deferred annuity programs.

The State and SAIF Corporation have no liability for losses under these deferred compensation plans, but they do have the duty of due care that would be required of an ordinary prudent investor.

15. RISK FINANCING

A. Property, Liability, and Workers' Compensation Coverages for State Government. The Risk Management Division of the Department of Administrative Services administers the State's property and liability insurance programs. The division believes it is economical to manage the State's risks internally. The division

minimizes purchases of commercial insurance for most risks of loss. The division sets aside assets for actuarially forecasted losses in the Insurance Fund. It is an internal service fund established under Chapter 278 of the Oregon Revised Statutes. The Insurance Fund services claims for these risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

The fund is backed by commercial policies, such as an excess property policy with a limit of $400 million and a blanket commercial excess bond with a limit of $20 million. The division purchases commercial insurance for specific insurance needs not covered by the fund. The amount of claim settlements did not exceed commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions and boards participate in the fund. The division allocates the cost of claims and claims administration by charging an assessment to each State entity, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The division purchases workers' compensation insurance for the State from SAIF Corporation. The Insurance Fund reimburses SAIF Corporation for claim costs and service fees. The division purchased retrospective paid loss plans for fiscal years 1997 through 2004 that have cash flow and investment earnings advantages. The plans are ten years in length. The accumulated claim loss liability for the plans was approximately $34 million as of June 30, 2004. Independent actuaries determine biennial loss forecasts.

The division reevaluates claim liabilities periodically, considering recently settled claims, the frequency of claims, and other economic and social factors. Liabilities include an amount for claims and legal expenses that have been incurred but not reported. The estimation process is not exact since actual claim liabilities depend on inflation and changes in legal doctrines and damage awards. The division discounts claim liabilities at annual rates of two to seven percent. Contracted actuaries estimate claims and allocated and unallocated expenses, including legal expenses, which are incurred but not reported. They use the last 10 to 15 years of State claims data and the projected numbers of employees, payroll, vehicles, and other property. They forecast ultimate losses by line of coverage.

The changes in the Insurance Fund balances of aggregate claim liabilities for the years ended June 30, 2004 and 2003 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
2004.....	$ 71,234	$ 39,164	$ (32,218)	$ 78,180
2003.....	64,620	38,380	(31,766)	71,234

The June 30, 2004 balance of claim liabilities is reported as claims and judgments payable in the Central Services Fund.

B. SAIF Corporation Workers' Compensation Insurance. The Legislature created SAIF Corporation to transact workers' compensation insurance and reinsurance business. SAIF Corporation is an independent public corporation, a component unit of the State, and the largest workers' compensation insurer in the State.

The financial activity for SAIF Corporation is discretely presented in the financial statements. The liability for claims and claim adjustment expenses is generally based on experience. This includes provision for reported claims, claims incurred but not reported, and claims that are currently closed but which experience indicates will

be reopened. SAIF Corporation discounts certain indemnity claim reserves to their present value at a rate of 3.5 percent.

C. Supplemental Workers' Compensation Insurance. The Department of Consumer and Business Services operates several supplemental workers' compensation benefit programs. These are accounted for as special revenue funds. The primary program is the Retroactive Program, established by Oregon Revised Statute 656.506. It provides increased insurance benefits to claimants or their beneficiaries when current payment requirements exceed benefits in effect at the time of injury.

The Department of Consumer and Business Services determines the funding of supplemental workers' compensation insurance programs through cash flow projections based on historical data and economic forecasts. Employer work hour assessments, contributions by employees, workers' compensation insurance premium assessments, investment, and interest earnings pay for the programs.

The changes in the balances of aggregate claim liabilities for supplemental workers' compensation insurance for the years ended June 30, 2004 and 2003 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
2004.....	$ 1,056,519	$ 51,334	$ (2,730)	$ 1,105,123
2003.....	1,105,633	-	(49,114)	1,056,519

Long-term liabilities were actuarially computed as of June 30, 2004, using the discounted cost valuation method. The discount rate for the Retroactive Program is 6.0 percent. This liability is reported as part of claims and judgments payable in the government-wide Statement of Net Assets.

16. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

Proprietary fund revenues, including discretely presented component units, are reported net of discounts and allowances in the accompanying financial statements. The following schedule summarizes discounts and allowances in proprietary finds for the year ended June 30, 2004 (in thousands):

Primary Government

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	$ 1,207
Unemployment Compensation	Assessments	880
Unemployment Compensation	Fines and Forfeitures	(166)
University System	Charges for Services	34,933
Nonmajor Enterprise Funds	Charges for Services	60,260
Nonmajor Enterprise Funds	Sales	4,075
Nonmajor Enterprise Funds	Other	(7)
Internal Service Funds	Other	(28)
Total Primary Government		$ 101,154

Discretely Presented Component Units

Component Units	Type of Revenue	Amount
SAIF Corporation	Charges for Services	$ 55
Oregon Health and Science University	Charges for Services	118,953
Oregon Health and Science University	Gifts, Grants and Contracts	(303)
Total Component Units		$ 118,705

17. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments over $5 million are included in total prior period adjustments in the accompanying financial statements:

Primary Government. A prior period adjustment of $49.0 million was made to correct the balance of a capital asset that was incorrectly reported in prior years.

Governmental Funds

General Fund. An adjustment of $7.6 million was made to correct an error in the accrual of personal and corporate income taxes from the prior year. The allowance account for uncollectible corporate income taxes was corrected, resulting in an adjustment of $14.1 million to increase beginning fund balance for corporate income taxes understated in prior years. In addition, the allowance account for uncollectible personal income taxes was corrected, resulting in an adjustment of $10.7 million to increase beginning fund balance for personal income taxes understated in prior years.

Nonmajor Governmental Funds. In the Capital Projects Fund, an adjustment of $7.1 million was made to correct errors in previously reported cash balances.

Proprietary Funds

Nonmajor Enterprise Funds. In the Other Nonmajor Enterprise Funds, an adjustment of $7.5 million was made to correct errors in construction in progress related to prior years.

Discretely Presented Component Units. The estimates of premiums, losses and reserves associated with policies ceded to and assumed from the National Workers' Compensation Reinsurance Pool for the SAIF Corporation as of December 31, 2002 were not properly recorded. As a result, net assets as of December 31, 2002 were restated in the amount of $7.7 million. In addition, estimated recoverables under reinsurance agreements for the SAIF Corporation were improperly recorded at a discounted value. As a result, net assets as of December 31, 2002 were restated in the amount of $58.4 million.

18. COMMITMENTS

The State has made commitments that are to be funded with general funds, federal funds, lottery funds, or other fund resources. These commitments may take the form of grants, loans, or contracts for services. Commitments in effect as of June 30, 2004, and the anticipated sources of funding, are summarized in the following table (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	$137,250	$215,132	$ 1,527	$ 17,980	$ 371,889
Indigent defense contracts	46,704	-	-	-	46,704
Personal services contracts	169,281	31,873	-	8,379	209,533
Grant and loan commitments	2,915	199,941	24,620	192,862	420,338
Equipment purchases	-	-	20,742	-	20,742
Total	$356,150	$446,946	$46,889	$219,221	$1,069,206

19. CONTINGENCIES

A. Litigation. The State is involved in certain legal proceedings that, if decided against the State, may require significant future expenditures or may impair future revenue sources. A significant legal claim pending against the State involves several trucking associations that have filed a complaint against the Department of Transportation alleging that the State's weight-mile tax system is unconstitutional. Part of the remedy sought is a refund of weight-mile taxes paid since January 1, 2000. A trial court ruled in December 2001 that the tax is lawful. On appeal, the Oregon Court of Appeals issued a decision in April 2004 holding that the flat fee option violates the commerce clause of the U.S. Constitution. The State has petitioned the Oregon Supreme Court to review the decision of the Court of Appeals. If the tax is finally determined to be unlawful, the State may be required to refund up to approximately $164.0 million. However, the State intends to continue to vigorously defend the weight-mile tax structure and believes it has strong arguments to reduce or avoid any potential liability.

A group of Oregon taxpayers filed an action challenging a legislative bill that segregated moneys received under the federal Medicaid program from the calculation of the "kicker" refund for the 1999-2001 biennium. A summary judgment ruled that the bill was not revenue raising and was properly implemented by the State. The plaintiffs appealed the decision to the Oregon Court of Appeals, and in April of 2004, the court held that the Medicaid moneys should have been included in the "kicker" calculations. The State believes that, based on current law, it has strong defenses to the claim. The Oregon Supreme Court has accepted the State's petition for review and has scheduled oral arguments for January 2005. If the taxpayers ultimately prevail, the State may be required to refund approximately $113.0 million to Oregon taxpayers.

Other significant legal claims pending against the State challenge the legislative changes that were enacted to the Public Employees Retirement System (PERS) during the 2003 legislative session in House Bill 2001, House Bill 2003, and House Bill 2004. These claims seek to have the legislative changes made to PERS enjoined and/or declared a breach of contract, an unconstitutional impairment of contract, or an unconstitutional taking of property. Plaintiffs contend that the changes to PERS will result in reductions to the retirement benefits paid to PERS members.

The legislative bills included a statutory remedy to a prior case that was brought on behalf of certain local government employers challenging previous actions by the Public Employees Retirement Board (PERB), City of Eugene v. State of Oregon, in the event that decision is upheld on appeal. In that case, the trial court ruled that PERB had incorrectly calculated certain employer contribution rates, abused its discretion in distributing 1999 earnings to member accounts, misinterpreted certain governing statutes, and did not properly fund reserves, all of which led to some retirees receiving benefits in excess of what they should have received. House Bill 2003 provides that cost of living increases will not be paid to retirees until any erroneous benefit payments are made up. The bill also provides that any amounts erroneously paid are administrative expenses that may be charged to future earnings of non-retired members' accounts. Some of the parties to the City of Eugene litigation have tentatively agreed to settle the case. The impact of the settlement on the other pending PERS litigation is uncertain.

The State intends to vigorously defend these suits and has hired private counsel to handle the defense of the PERS legislation challenges. The Oregon Supreme Court heard oral arguments on the legislative changes in July of 2004. It is currently unclear how much of the projected savings expected to be generated by House Bills 2001, 2003, and 2004 would actually be realized by the State if plaintiffs were to prevail on some or all of their claims.

B. Debt Guarantees. Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt of Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. Short-term borrowing from eligible state funds may also satisfy the guarantee. Ultimate responsibility for debt service payments remains the responsibility of the respective district, and the Treasurer will seek recovery if payments are made on behalf of any district. As of June 30, 2004, a total of $1.5 billion in bonds was outstanding and guaranteed under these provisions.

C. Unemployment Benefits. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. There appears to be no practical method of estimating the amount of future benefit

payments, which may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2004, totaled approximately $13.9 million.

D. Federal Issues. The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State. Institutions of higher education and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Certain state agencies may not be in total compliance with these regulations. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements.

The State receives federal funding for its nursing facility reimbursements through Medicaid's Upper Payment Limit (MUPL) provisions. In April of 2003, the U.S. Department of Health and Human Services (DHHS), Centers for Medicare and Medicaid Services (CMS), notified the State that it was deferring payment on $45.6 million of the State's MUPL claim included in the State's quarterly expense report for the quarter ended December 31, 2002. As requested, the State provided additional documentation to CMS regarding the State's MUPL calculations. This federal deferral is still pending. However, the State took action at the close of the 2001-2003 biennium to recognize the $45.6 million deferral and obtained legislative approval to replace the deferred federal funds with general fund resources.

In June of 2003, DHHS's Office of Inspector General (OIG) began an audit of the State's compliance with the MUPL regulations. In May of 2004, the OIG provided the State with a draft report containing the preliminary results of the audit. The State responded to the draft audit report and articulated the reasons for its belief that Oregon has not received more federal funds than are allowed under the governing MUPL regulations. If the OIG does not accept the State's position and finalizes its assessment as reflected in the draft report, the OIG would report to the CMS that Oregon has over claimed its MUPL entitlement by a total of $137.2 million in federal funds for fiscal year 2002 and 2003. In such a circumstance, if Oregon accepts as final the $45.6 million deferral mentioned above, the net potential liability to the federal government related to the OIG audit would be approximately $91.6 million for fiscal year 2002 and 2003. If Oregon foregoes MUPL claims for fiscal year 2004, this net potential liability to the federal government related to the OIG audit could be reduced by an estimated $22.9 million.

20. SUBSEQUENT EVENTS

A. Bond Issues. The following schedule summarizes bond issues that have occurred since July 1, 2004 (in thousands):

General Obligation Bonds

Office of Energy	$ 8,845
Department of Veterans' Affairs	30,000

Revenue Bonds

Housing and Community Services Department	$ 648,800
Department of Administrative Services	39,925
Economic and Community Development Department	9,690
Department of Transportation	294,750

B. Bond Calls. The following schedule summarizes bond calls that have occurred since July 1, 2004 (in thousands):

General Obligation Bonds

Office of Energy	$ 31,625
Department of Veterans' Affairs	38,630
Housing and Community Services Department	3,025

Revenue Bonds

Housing and Community Services Department	$ 41,090

C. Certificate of Participation Issue. On November 2, 2004, the Department of Administrative Services issued $51.8 million of certificates of participation, 2004 Series B. The proceeds will primarily be used to finance four projects: the construction of a new training facility for the Department of Public Safety Standards and Training, the purchase of a building to be used as a laboratory by the Department of Human Services and the Department of Environmental Quality, the design and first phase of construction of a consolidated data center facility for the Department of Administrative Services, and the first of two phases of the Medicaid Management Information System for the Department of Human Services.

D. Tax Anticipation Note Issue. On November 2, 2004, the State issued $787.0 million of full faith and credit Tax Anticipation Notes, 2004 Series A. The proceeds of these notes will be used to meet seasonal cash needs of the State and for cash management purposes within the 2003-2005 biennium.

E. Refundings. On November 2, 2004 the Department of Administrative Services issued $29.5 million refunding certificates of participation, 2004 Series C. The State will use these proceeds to refund $27.5 million of 1997 Series A and 2000 Series B certificates of participation. On July 7, 2004, the Department of Transportation issued $75.6 million refunding revenue bonds. The State will use these proceeds to refund $75.3 million of Series 2000 and Series 2002A revenue bonds.

F. Line of Credit. On September 9, 2004, the Department of Forestry drew $5.0 million on their line of credit to pay firefighting expenses. The Department of Veterans' Affairs drew $20.0 million on September 30, 2004 and drew an additional $10.0 million on October 29, 2004 on their line of credit to help preserve refunding opportunities to finance veterans' housing loans.

G. Debt Guarantees. Under Article XI-K of the Oregon Constitution, $142.5 million in bonds for various school districts were issued and guaranteed following the fiscal year ended June 30, 2004 as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

Marion County School District No. 91 Refunding	$ 4,605
Lane County School District No. 1	915
Jefferson County School District No. 4 Refunding	3,810
Oregon Coast Community College	23,500
Umatilla County School District No. 8 Refunding	30,625
Clackamas County School District No. 86 Refunding	24,455
Clackamas County School District No. 3jt Refunding	27,815
Jackson County School District No. 6 Refunding	23,725
Malheur County School District No. 84 Refunding	1,585
Linn County School District No. 95 Refunding	1,470

21. SPECIAL ITEMS

Special items of approximately $21.9 million are reported within business-type activities in the accompanying financial statements (State Hospitals Fund, nonmajor enterprise fund). Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. The special items reported in the State Hospitals Fund resulted from the disposal of Fairview Training Center and Dammasch State Hospital.

22. CHANGE IN ACCOUNTING PRINCIPLES

During the fiscal year ended June 30, 2004, the State implemented Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, a new accounting standard issued by the Governmental Accounting Standards Board. Statement No. 39 amended Statement No. 14, *The Financial Reporting Entity*, by providing criteria to apply when determining whether certain organizations for which the State is not financially accountable are properly reported as component units of the State based on the nature and significance of the relationship between the organization and the State's primary government. Implementation of this standard resulted in reporting the Oregon University System Foundations as a component unit of the State. The cumulative effect of this change in accounting principle is reported as a $741.9 million restatement of beginning net assets in the Combining Statement of Revenues, Expenses and Changes in Fund Net Assets for the discretely presented component units.

Required Supplementary Information

Budgeted Appropriated Funds

The State accounts for budgetary activities based on the source of monies used to pay expenditures. Separate appropriated funds are established for each funding source.

General Fund

This fund accounts for expenditures made with general fund revenue. General fund revenue consists largely of personal and corporate income taxes.

Federal Funds

This fund accounts for budgeted expenditures made with federal revenue.

Lottery Funds

This fund accounts for expenditures made with lottery funds. These funds are earned by the State Lottery, and transferred to the Economic Development Fund at the Department of Administrative Services for disbursement to agencies where the funds are expended.

Other Funds

This fund accounts for budgeted expenditures other than those funded by general, federal and lottery funds.

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds For the Biennium Ending June 30, 2005 As of June 30, 2004 (In Thousands)

	General Fund			
	2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	Variance Over/ (Under)
Revenues:				
Personal Income Taxes	$ 9,395,349	$ 8,842,317	$ 4,142,886	$ (4,699,431)
Corporate Income Taxes	539,737	550,487	317,506	(232,981)
Tobacco Taxes	110,482	112,297	49,392	(62,905)
Motor Fuels Taxes	-	-	-	-
Weight-Mile Taxes	-	-	-	-
Employer-Employee Taxes	-	-	-	-
Vehicle Registration Taxes	-	-	-	-
Other Taxes	218,812	244,457	130,626	(113,831)
Licenses and Fees	42,312	46,108	20,841	(25,267)
Federal	-	-	-	-
Charges for Services	6,000	6,700	3,327	(3,373)
Fines and Forfeitures	1,445	1,445	5,546	4,101
Rents and Royalties	-	-	-	-
Investment Income	22,500	14,500	8,206	(6,294)
Sales	22,387	22,387	2,193	(20,194)
Donations and Grants	-	-	2	2
Pension Bond Debt Service Assessments	-	-	-	-
Other	3,690	704	6,867	6,163
Total Revenues	10,362,714	9,841,402	4,687,392	(5,154,010)
Expenditures:				
Education	6,200,339	5,920,376	3,303,543	(2,616,833)
Human Resources	2,460,675	2,285,872	1,288,905	(996,967)
Public Safety	1,240,654	1,219,401	616,023	(603,378)
Economic and Community Development	18,073	18,073	8,088	(9,985)
Natural Resources	111,721	114,254	52,149	(62,105)
Transportation	3,915	3,915	3,915	-
Consumer and Business Services	10,935	10,935	5,392	(5,543)
Administration	127,578	131,257	73,969	(57,288)
Legislative	56,619	58,745	23,611	(35,134)
Judicial	412,166	396,238	260,845	(135,393)
Total Expenditures	10,642,675	10,159,066	5,636,440	(4,522,626)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(279,961)	(317,664)	(949,048)	(631,384)
Other Financing Sources (Uses):				
Transfers from Other Funds	1,054,706	1,013,341	448,597	(564,744)
Transfers to Other Funds	(678,947)	(671,432)	(346,041)	325,391
Long-term Debt Issued	-	-	-	-
Debt Issuance Premium	-	-	-	-
Gain(Loss) on Disposition of Equipment	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 95,798	$ 24,245	(846,492)	$ (870,737)
Budgetary Fund Balances - Beginning			139,612	
Prior Period Adjustments			-	
Budgetary Fund Balances - Beginning - As Restated			139,612	
Prior Biennium Transactions			115,036	
Budgetary Fund Balances - Ending			$ (591,844)	

Federal Funds				Lottery Funds			
2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	Variance Over/ (Under)	2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	Variance Over/ (Under)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
7,196,332	7,270,824	2,859,307	(4,411,517)	-	-	-	-
-	-	454	454	-	-	1	1
-	-	170	170	-	-	-	-
-	-	503	503	-	-	-	-
-	-	235	235	11,353	11,353	7,174	(4,179)
-	-	280	280	-	-	-	-
-	-	221	221	-	-	-	-
-	-	-	-	-	-	-	-
-	-	70,147	70,147	-	-	10	10
7,196,332	7,270,824	2,931,317	(4,339,507)	11,353	11,353	7,185	(4,168)
811,944	812,920	316,963	(495,957)	516,620	516,620	159,537	(357,083)
4,937,805	4,989,705	2,225,042	(2,764,663)	5,600	5,600	2,737	(2,863)
413,412	417,068	150,446	(266,622)	5,567	5,567	2,440	(3,127)
394,902	406,683	173,353	(233,330)	94,173	94,173	36,612	(57,561)
226,447	241,830	106,548	(135,282)	109,001	109,001	46,967	(62,034)
69,297	69,297	19,755	(49,542)	21,146	21,146	10,195	(10,951)
1,652	1,652	672	(980)	-	-	-	-
11,550	11,904	7,654	(4,250)	4,763	4,763	2,356	(2,407)
-	-	-	-	-	-	-	-
2,333	2,333	576	(1,757)	-	-	-	-
6,869,342	6,953,392	3,001,009	(3,952,383)	756,870	756,870	260,844	(496,026)
326,990	317,432	(69,692)	(387,124)	(745,517)	(745,517)	(253,659)	491,858
2,859	2,859	148,363	145,504	1,591,826	1,591,826	524,613	(1,067,213)
(337,248)	(337,248)	(24,831)	312,417	(946,437)	(946,437)	(122,547)	823,890
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ (7,399)	$ (16,957)	53,840	$ 70,797	$ (100,128)	$ (100,128)	148,407	$ 248,535
		(4,334)				(166,592)	
		-				-	
		(4,334)				(166,592)	
		(5,737)				(13,654)	
		$ 43,769				$ (31,839)	

(Continued on next page)

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds For the Biennium Ending June 30, 2005 As of June 30, 2004 (In Thousands)

(continued from previous page)

	Other Funds			
	2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	Variance Over/ (Under)
Revenues:				
Personal Income Taxes	$ -	$ -	$ -	$ -
Corporate Income Taxes	-	-	-	-
Tobacco Taxes	443,284	443,284	169,979	(273,305)
Motor Fuels Taxes	830,213	830,213	370,395	(459,818)
Weight-Mile Taxes	431,876	431,876	182,841	(249,035)
Employer-Employee Taxes	382,509	382,509	-	(382,509)
Vehicle Registration Taxes	-	-	145,648	145,648
Other Taxes	305,337	316,586	105,471	(211,115)
Licenses and Fees	958,650	954,942	230,990	(723,952)
Federal	696,617	869,278	313,071	(556,207)
Charges for Services	1,725,673	1,669,644	662,992	(1,006,652)
Fines and Forfeitures	174,291	174,291	24,947	(149,344)
Rents and Royalties	89,783	89,783	37,873	(51,910)
Investment Income	356,130	356,130	26,683	(329,447)
Sales	366,834	367,285	137,084	(230,201)
Donations and Grants	175,471	175,574	6,051	(169,523)
Pension Bond Debt Service Assessments	-	-	10,903	10,903
Other	1,053,755	1,078,475	479,143	(599,332)
Total Revenues	7,990,423	8,139,870	2,904,071	(5,235,799)
Expenditures:				
Education	1,705,986	1,711,237	639,048	(1,072,189)
Human Resources	1,145,492	1,145,661	381,167	(764,494)
Public Safety	338,474	339,694	144,434	(195,260)
Economic and Community Development	276,778	276,778	107,125	(169,653)
Natural Resources	574,762	590,635	256,228	(334,407)
Transportation	1,981,057	2,483,373	862,987	(1,620,386)
Consumer and Business Services	260,432	261,381	119,026	(142,355)
Administration	761,248	783,933	304,388	(479,545)
Legislative	3,310	3,310	1,314	(1,996)
Judicial	31,482	31,890	10,175	(21,715)
Total Expenditures	7,079,021	7,627,892	2,825,892	(4,802,000)
Excess (Deficiency) of Revenues Over (Under) Expenditures	911,402	511,978	78,179	(433,799)
Other Financing Sources (Uses):				
Transfers from Other Funds	3,844,083	3,875,082	1,654,128	(2,220,954)
Transfers to Other Funds	(5,545,957)	(5,611,235)	(3,786,612)	1,824,623
Long-term Debt Issued	769,641	1,149,065	2,211,238	1,062,173
Debt Issuance Premium	-	-	19,096	19,096
Gain(Loss) on Disposition of Equipment	-	-	1,157	1,157
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ (20,831)	$ (75,110)	177,186	$ 252,296
Budgetary Fund Balances - Beginning			2,630,235	
Prior Period Adjustments			(10,302)	
Budgetary Fund Balances - Beginning - As Restated			2,619,933	
Prior Biennium Transactions			(11,120)	
Budgetary Fund Balances - Ending			$ 2,785,999	

Total All Budgeted Appropriated Funds

2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	Variance Over/ (Under)
$ 9,395,349	$ 8,842,317	$ 4,142,886	$ (4,699,431)
539,737	550,487	317,506	(232,981)
553,766	555,581	219,371	(336,210)
830,213	830,213	370,395	(459,818)
431,876	431,876	182,841	(249,035)
382,509	382,509	-	(382,509)
-	-	145,648	145,648
524,149	561,043	236,097	(324,946)
1,000,962	1,001,050	251,831	(749,219)
7,892,949	8,140,102	3,172,378	(4,967,724)
1,731,673	1,676,344	666,774	(1,009,570)
175,736	175,736	30,663	(145,073)
89,783	89,783	38,376	(51,407)
389,983	381,983	42,298	(339,685)
389,221	389,672	139,557	(250,115)
175,471	175,574	6,274	(169,300)
-	-	10,903	10,903
1,057,445	1,079,179	556,167	(523,012)
25,560,822	25,263,449	10,529,965	(14,733,484)
9,234,889	8,961,153	4,419,091	(4,542,062)
8,549,572	8,426,838	3,897,851	(4,528,987)
1,998,107	1,981,730	913,343	(1,068,387)
783,926	795,707	325,178	(470,529)
1,021,931	1,055,720	461,892	(593,828)
2,075,415	2,577,731	896,852	(1,680,879)
273,019	273,968	125,090	(148,878)
905,139	931,857	388,367	(543,490)
59,929	62,055	24,925	(37,130)
445,981	430,461	271,596	(158,865)
25,347,908	25,497,220	11,724,185	(13,773,035)
212,914	(233,771)	(1,194,220)	(960,449)
6,493,474	6,483,108	2,775,701	(3,707,407)
(7,508,589)	(7,566,352)	(4,280,031)	3,286,321
769,641	1,149,065	2,211,238	1,062,173
-	-	19,096	19,096
-	-	1,157	1,157
$ (32,560)	$ (167,950)	(467,059)	$ (299,109)
		2,598,921	
		(10,302)	
		2,588,619	
		84,525	
		$ 2,206,085	

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The State's budget is approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. The Governor is required to submit budget recommendations to the Legislature no later than December 1 preceding the biennium. The Governor establishes priorities for the State based on function (i.e., Education, Human Resources, etc.) and the budget is summarized by these functions. Expenditures are budgeted based on the following revenue sources: General, Federal, Lottery, and Other.

The regular Legislative session begins in January of each odd-numbered year and lasts approximately six months. The budget is adopted by the Legislature's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State. Appropriation bills include one or more appropriations (budgeted expenditure items) which may be at the agency, program, or activity level. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the State may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Also included in the Governor's budget recommendations are legally authorized, nonappropriated budget items that are not legislatively limited by an appropriation bill. These nonlimited funds include other funds, federal funds, and other funds debt service. Spending plans for nonbudgeted financial activities, which are not included in the Governor's budget recommendations, are also established by agencies for certain expenditures to enhance fiscal control. These nonbudgeted items include federal funds and other funds.

During the interim period when the Legislature is not in session, the Legislative Emergency Board is authorized to amend the legally adopted budget. It authorizes and allocates all changes in funding and takes other actions to meet emergency needs when the Legislature is not in session. Emergency Board approval is required to authorize the transfer of expenditure authority between appropriations. Management can reallocate within an appropriation without Emergency Board approval.

The State does not budget by the prescribed fund types of Generally Accepted Accounting Principles (GAAP). Appropriations may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. The Relational Statewide Accounting and Reporting System (R*STARS) controls expenditures by budgeted expenditure item as established in approved appropriation bills. Each item on an approved appropriation bill is assigned an appropriation number. Expenditures may not exceed appropriations. In R*STARS, appropriated funds are tied to one or more appropriation numbers to ensure that appropriated expenditure amounts are not exceeded.

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not presented at the legal level of budgetary control. Such a presentation would be extremely cumbersome. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2003-2005 biennium as of June 30, 2004. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Expenditures are monitored through the use of quarterly allotments. Allotments are required for appropriated and nonappropriated items and are used to establish spending limits. These spending limits are monitored by the Budget and Management Division of the Department of Administrative Services and are controlled by R*STARS. Encumbrance accounting is used for additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end expected to be honored in the following year are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Unexpended appropriations at the end of each biennium are available for subsequent expenditure to the extent that liabilities have been incurred at June 30, provided payment of liabilities is made during the succeeding six month period of July 1 through December 31. Any remaining unexpended appropriations lapse December 31 following the end of the biennium, except for appropriations related to capital construction.

Agencies are required to provide estimates of expected revenues for program revenue and segregated revenue categories. General fund revenues consist primarily of general taxes and other receipts that are paid into the

general fund and are then available for appropriation by the Legislature. Revenues not recorded in the general fund consist of function specific revenues, which are credited by law to an appropriation to finance a specified program and segregated revenues that are paid into separate identifiable funds.

Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the accompanying "Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budget amounts reported for expenditures represent the original budget modified by legally authorized legislative and executive changes as well as Emergency Board actions taken during the year.

The major differences between Budgetary (Non-GAAP) basis and GAAP basis are:

1. Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
2. Revenues are recognized when received in cash (budgetary) as opposed to when they are susceptible to accrual (GAAP).
3. Expenditures are recognized when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
4. Nonappropriated and nonbudgeted funds are not included in the budgetary schedule.
5. Timing differences occur because of a six-month lapse period between June 30 and December 31 of each odd-numbered year.

These different accounting principles may result in basis, perspective, entity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources over (under) expenditures and other uses of financial resources. A reconciliation of these differences is presented in the notes to required supplementary information (Note 2).

R*STARS establishes the following budgeted appropriated funds to account for the State's budgetary activities: General Fund, Federal Funds, Lottery Funds, and Other Funds.

2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP Basis) - All Budgeted Appropriated Funds" presents comparisons of the legally approved budget (more fully described in Note 1) with actual data on a budgetary basis.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation of the resulting differences in excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2004 is presented below. Governmental funds are reconciled to the net change in fund balances. Proprietary funds and fiduciary fund types are reconciled to the change in net assets.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (in thousands)

	Budgetary Balances Classified into GAAP Fund Structure								
GAAP Fund	Budgetary General Fund	Budgeted Federal Funds	Budgeted Lottery Funds	Budgeted Other Funds	Total Budgeted Funds	Timing Differences	Basis Differences	Non-Budgeted Funds	GAAP Balances
General	(846,492)	-	-	-	(846,492)	213,051	88,834	63,760	(480,847)
Health & Social Services	-	(5,193)	3,069	43,924	41,800	(50,783)	(18,073)	88,417	61,361
Public Transportation	-	855	-	(85,799)	(84,944)	51,422	(11,867)	15,177	(30,212)
Environmental Management	-	(31,500)	18,911	59,087	46,498	34,114	(43,150)	(13,620)	23,842
Nonmajor Governmental	-	89,678	125,151	126,244	341,073	113,424	(228,003)	(128,322)	98,172
Housing & Community Services	-	-	-	(267)	(267)	(153)	(1,106)	(12,340)	(13,866)
Veterans' Loan	-	-	-	(7,645)	(7,645)	(371)	(98)	(4,491)	(12,605)
Lottery Operations	-	-	-	-	-	-	-	10,830	10,830
Unemployment Compensation	-	-	-	-	-	-	-	(85,716)	(85,716)
University System	-	-	-	232,371	232,371	(90,761)	(141,610)	30,792	30,792
Nonmajor Proprietary	-	-	1,276	23,798	25,074	(9,269)	22,350	70,714	108,869
Internal Service	-	-	-	(203,709)	(203,709)	11,215	4,257	157,185	(31,052)
Pension Trust	-	-	-	(19,153)	(19,153)	(2,580)	(16,340)	8,334,023	8,295,950
Private Purpose Trust	-	-	-	8,335	8,335	(83)	117,626	(12,043)	113,835
Investment Trust	-	-	-	-	-	-	-	9,773	9,773
Totals (Memo Only)	(846,492)	53,840	148,407	177,186	(467,059)	269,226	(227,180)	8,524,139	8,099,126

Combining Fund Financial Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources, other than for major capital projects, that finance specified activities as required by law or administrative regulations.

Agricultural Resources Fund

This fund accounts for programs related to the promotion, inspection, and regulation of the State's agricultural industry. Funding for these programs comes from licenses and fees, charges for services, and federal grants.

Business Development Fund

This fund is used to account for programs that expand existing businesses as well as attract and promote new businesses. Employer and employee taxes, federal grants, and revenue bond proceeds are the main funding sources for these programs.

Community Protection Fund

This fund accounts for a variety of activities that help to ensure the safety of the State's citizens and their property through the courts, police, military, and correctional facilities. The main funding sources for these programs are federal grants, fines, and state court fees.

Consumer Protection Fund

This fund is used to account for programs that regulate existing businesses and license various professionals and organizations. Funding is generated mainly from public utilities taxes and business license fees.

Educational Support Fund

This fund is used to account for programs that provide students with opportunities to develop their academic abilities to the fullest from early childhood into postgraduate research. The principal funding sources for these programs come from federal grants, timber harvest taxes, and transfers from other funds.

Employment Services Fund

This fund accounts for programs that provide workers with a safe and secure workplace. Funding for these employment related programs comes from federal grants, employer and employee taxes, and other taxes.

Nutritional Support Fund

This fund accounts for programs to improve the diets of low-income households and school children. Federal grants are the main source of revenue for these programs.

Residential Assistance Fund

This fund accounts for programs that help to meet the housing and energy needs of low-income Oregonians. Major funding comes from federal grants, senior citizen property tax repayments, and public utilities taxes.

Other Special Revenue Funds

This fund accounts for a variety of small programs that are funded mainly by federal grants and charges for services.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for the payment of interest and principal on long-term obligations.

Revenue Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term revenue bonds not reported in proprietary funds. The portion of these bonds not self-supporting is funded by a legislative appropriation.

Certificates of Participation Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on certificates of participation not reported in proprietary funds. Debt service requirements are funded by a legislative appropriation.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation bonds not reported in the general fund or in proprietary funds. The issuance of general obligation debt is authorized in the Oregon constitution. The portion of these bonds not self-supporting is funded by a legislative appropriation.

General Appropriation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general appropriation bonds not reported in the general fund or in proprietary funds. The issuance of general appropriation bonds was authorized by the Oregon Legislature. Debt service requirements are funded by a legislative appropriation.

Capital Projects Fund

The capital projects fund is used to account for financial resources, other than general funds, segregated for the construction or acquisition of major capital facilities.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the State's programs.

Housing Guarantee Fund

The activity formerly reported in this fund is now reported in the Residential Assistance Fund. The Housing Guarantee Fund is no longer a permanent fund because both principal and interest may now be spent.

Other Permanent Funds

This fund is used to account for the principal and related interest income of a variety of small programs. The interest income provides funding for programs such as the upkeep on fish hatcheries, scholarship funds for injured workers, special library book purchases, and homes for the developmentally disabled. Legislative changes allowed the principle amount in the Oregon County Fair account to be spent; thus, this activity was transferred to the Agricultural Resources Fund and is no longer a permanent fund.

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004
(In Thousands)

	Special Revenue Funds		
	Agricultural Resources	**Business Development**	**Community Protection**
ASSETS			
Cash and Cash Equivalents	$ 16,925	$ 77,312	$ 158,410
Investments	-	1,472	3,646
Investments - Restricted	-	-	-
Cash and Securities Held in Trust	-	-	-
Securities Lending Cash Collateral	-	-	59,789
Accounts and Interest Receivable (net)	2,013	1,626	25,083
Taxes Receivable	-	3,347	-
Due from Other Funds	1,402	115,670	13,814
Due from Other Governments	3	-	-
Inventories	203	16	253
Prepaid Items	31	8	50
Net Contracts, Notes and Other Receivables	-	364	248,670
Loans Receivable	-	169	-
Total Assets	$ 20,577	$ 199,984	$ 509,715
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	$ 648	$ 2,088	$ 13,465
Obligations Under Securities Lending	-	-	59,789
Due to Other Funds	463	92,761	32,465
Due to Other Governments	-	1,627	2,324
Matured Bonds/COPS and Coupons Payable	-	-	-
Advances from Other Funds	-	100	-
Trust Funds Payable	649	4	178
Deferred Revenue	520	3,225	250,986
Contracts, Mortgages and Notes Payable	-	-	-
Total Liabilities	2,280	99,805	359,207
Fund Balances:			
Reserved for Encumbrances	255	25	1,508
Reserved for Inventories	203	16	253
Reserved for Loans Receivable	-	169	-
Reserved for Other Long-term Receivables	-	-	-
Reserved for Prepaid Items	31	8	50
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	76	-	84
Unreserved, Undesignated	17,732	99,961	148,613
Total Fund Balances	18,297	100,179	150,508
Total Liabilities and Fund Balances	$ 20,577	$ 199,984	$ 509,715

Special Revenue Funds

Consumer Protection	Educational Support	Employment Services	Nutritional Support	Residential Assistance	Other
$ 94,488	$ 103,141	$ 136,538	$ 45	$ 72,513	$ 16,938
-	7,378	151,263	-	15,242	1,803
-	-	-	-	-	-
1,770	-	-	-	-	-
50,822	-	226,549	-	14,194	247
1,314	29,428	68,209	12,505	5,330	500
6,523	4,211	-	-	-	-
3,679	17,848	2,313	2	419	3,056
1	42	-	-	-	-
107	10	3,664	85	102	703
86	82	350	-	25	123
380	29	13,294	-	64	-
-	25	-	-	96,257	-
$ 159,170	$ 162,194	$ 602,180	$ 12,637	$ 204,146	$ 23,370
$ 1,603	$ 17,521	$ 33,453	$ 1,173	$ 2,949	$ 731
50,822	-	226,549	-	14,194	247
10,431	1,571	51,696	1,366	335	1,688
5,892	6,958	1,229	8,217	1,957	39
-	-	-	-	-	-
-	-	1,108	-	50,981	80
1,817	268	-	-	-	12
393	4,013	13,732	275	331	-
-	-	-	-	-	-
70,958	30,331	327,767	11,031	70,747	2,797
1,630	17,431	3,282	150	512	2,508
107	10	3,664	85	102	703
-	25	-	-	96,257	-
-	-	-	-	-	-
86	82	350	-	25	123
-	-	-	-	-	-
-	-	-	-	-	-
-	-	152,931	-	-	-
8	3	102	-	-	-
86,381	114,312	114,084	1,371	36,503	17,239
88,212	131,863	274,413	1,606	133,399	20,573
$ 159,170	$ 162,194	$ 602,180	$ 12,637	$ 204,146	$ 23,370

(continued on next page)

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004
(In Thousands)
(continued from previous page)

	Debt Service Funds			
	Revenue Bond	Certificates of Participation	General Obligation Bond	General Appropriation Bond
ASSETS				
Cash and Cash Equivalents	$ 11,765	$ 119	$ 12,274	$ 25
Investments	52,148	865	16,905	-
Investments - Restricted	93	-	-	-
Cash and Securities Held in Trust	-	-	-	-
Securities Lending Cash Collateral	-	-	2,279	-
Accounts and Interest Receivable (net)	-	-	10,727	-
Taxes Receivable	-	-	-	-
Due from Other Funds	57,650	165	-	-
Due from Other Governments	-	-	-	-
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	-
Loans Receivable	-	-	-	-
Total Assets	$ 121,656	$ 1,149	$ 42,185	$ 25
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Interest Payable	$ -	$ -	$ -	$ -
Obligations Under Securities Lending	-	-	2,279	-
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Matured Bonds/COPS and Coupons Payable	-	-	23	-
Advances from Other Funds	-	134	-	-
Trust Funds Payable	24	-	-	-
Deferred Revenue	-	-	-	-
Contracts, Mortgages and Notes Payable	-	-	-	-
Total Liabilities	24	134	2,302	-
Fund Balances:				
Reserved for Encumbrances	-	-	-	-
Reserved for Inventories	-	-	-	-
Reserved for Loans Receivable	-	-	-	-
Reserved for Other Long-term Receivables	-	-	-	-
Reserved for Prepaid Items	-	-	-	-
Reserved for Debt Service	121,632	1,015	39,883	25
Reserved for Permanent Fund Principal	-	-	-	-
Reserved for Claims and Judgments Payable	-	-	-	-
Reserved for Revolving Accounts	-	-	-	-
Unreserved, Undesignated	-	-	-	-
Total Fund Balances	121,632	1,015	39,883	25
Total Liabilities and Fund Balances	$ 121,656	$ 1,149	$ 42,185	$ 25

Capital Projects Fund	Permanent Funds		
Capital Projects	Housing Guarantee	Other	Total
$ 14,733	$ -	$ 15,924	$ 731,150
23,407	-	-	274,129
-	-	-	93
-	-	-	1,770
-	-	-	353,880
102	-	18	156,855
-	-	-	14,081
3,095	-	-	219,113
-	-	-	46
-	-	-	5,143
-	-	-	755
142	-	-	262,943
-	-	-	96,451
$ 41,479	$ -	$ 15,942	$ 2,116,409
$ 1,095	$ -	$ 21	$ 74,747
-	-	-	353,880
195	-	-	192,971
-	-	-	28,243
-	-	-	23
-	-	-	52,403
-	-	205	3,157
186	-	-	273,661
247	-	-	247
1,723	-	226	979,332
2,309	-	25	29,635
-	-	-	5,143
-	-	-	96,451
142	-	-	142
-	-	-	755
-	-	-	162,555
-	-	9,868	9,868
-	-	-	152,931
-	-	-	273
37,305	-	5,823	679,324
39,756	-	15,716	1,137,077
$ 41,479	$ -	$ 15,942	$ 2,116,409

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004
(In Thousands)

	Special Revenue Funds		
	Agricultural Resources	**Business Development**	**Community Protection**
Revenues:			
Employer-Employee Taxes	$ -	$ 164,460	$ -
Other Taxes	3	10,258	-
Licenses and Fees	14,855	2,238	19,134
Federal	3,793	13,014	124,754
Charges for Services	6,395	394	17,005
Fines and Forfeitures	183	16	98,684
Rents and Royalties	-	-	1,532
Investment Income	169	264	791
Sales	5	2,419	2,202
Donations and Grants	-	1,758	626
Contributions to Permanent Funds	-	-	-
Pension Bond Debt Service Assessments	-	-	-
Other	2,249	5,677	32,812
Total Revenues	27,652	200,498	297,540
Expenditures:			
Current:			
Education	-	-	-
Human Resources	-	-	2,354
Public Safety	-	2,011	286,645
Economic and Community Development	-	38,037	-
Natural Resources	29,504	177	-
Transportation	-	-	6,896
Consumer and Business Services	-	373	-
Administration	-	186,177	10,571
Legislative	-	-	-
Judicial	-	-	39,855
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	10	-
Other Debt Service	-	307	362
Total Expenditures	29,504	227,092	346,683
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,852)	(26,594)	(49,143)
Other Financing Sources (Uses):			
Transfers from Other Funds	6,738	389,242	185,307
Transfers to Other Funds	(447)	(418,001)	(47,044)
Long-Term Debt Issued	-	-	1,323
Debt Issuance Premium	-	4,039	26
Debt Issuance Discount	-	-	-
Refunded Debt Issued	-	33,074	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	6,291	8,354	139,612
Net Change in Fund Balances	4,439	(18,240)	90,469
Fund Balances - Beginning	13,908	118,418	62,929
Prior Period Adjustments	(42)	3	(2,834)
Fund Balances - Beginning - As Restated	13,866	118,421	60,095
Change in Reserve for Inventories	(8)	(2)	(56)
Fund Balances - Ending	$ 18,297	$ 100,179	$ 150,508

Special Revenue Funds					
Consumer Protection	Educational Support	Employment Services	Nutritional Support	Residential Assistance	Other
$ -	$ -	$ 86,406	$ -	$ -	$ -
85,613	2,523	57,882	-	26,107	-
74,160	394	1,368	-	502	-
471	348,418	187,127	551,215	97,615	60,420
1,457	2,610	15,611	1,861	2,369	12,633
872	-	2,820	-	2,437	-
-	125	-	-	-	690
1,339	6,889	16,573	12	7,640	659
60	874	119	23	-	2,143
5	5,230	-	-	25	545
-	-	-	-	-	-
-	-	-	-	-	-
438	8,905	1,224	13,417	144	550
164,415	375,968	369,130	566,528	136,839	77,640
1,756	472,704	59,414	116,362	-	-
-	-	-	449,958	-	-
-	-	-	-	-	-
-	-	130,624	1,089	122,164	1,917
2,322	-	-	-	339	-
-	-	-	-	-	-
122,976	-	135,173	-	4,259	-
31,582	37,935	644	-	130	46,760
-	-	-	-	-	2,084
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,941
-	-	1	-	-	7,860
158,636	510,639	325,856	567,409	126,892	60,562
5,779	(134,671)	43,274	(881)	9,947	17,078
20,029	200,889	22,023	-	18,882	32,181
(18,820)	(3,478)	(91,295)	(66)	(998)	(2,122,437)
-	-	-	-	-	2,009,632
-	-	-	-	-	25
-	-	-	-	-	-
-	-	-	-	-	15
-	-	-	-	-	-
1,209	197,411	(69,272)	(66)	17,884	(80,584)
6,988	62,740	(25,998)	(947)	27,831	(63,506)
81,246	68,870	300,524	3,135	105,599	83,245
(25)	271	-	(217)	-	643
81,221	69,141	300,524	2,918	105,599	83,888
3	(18)	(113)	(365)	(31)	191
$ 88,212	$ 131,863	$ 274,413	$ 1,606	$ 133,399	$ 20,573

(continued on next page)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004
(In Thousands)
(continued from previous page)

	Debt Service Funds			
	Revenue Bond	Certificates of Participation	General Obligation Bond	General Appropriation Bond
Revenues:				
Employer-Employee Taxes	$ -	$ -	$ -	$ -
Other Taxes	-	-	-	-
Licenses and Fees	-	-	-	-
Federal	-	186	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Rents and Royalties	-	-	-	-
Investment Income	4,361	141	645	-
Sales	-	-	-	-
Donations and Grants	-	-	-	-
Contributions to Permanent Funds	-	-	-	-
Pension Bond Debt Service Assessments	-	-	21,579	-
Other	-	2,861	-	-
Total Revenues	4,361	3,188	22,224	-
Expenditures:				
Current:				
Education	-	-	-	-
Human Resources	-	-	-	-
Public Safety	-	-	-	-
Economic and Community Development	-	-	-	-
Natural Resources	-	-	-	-
Transportation	-	-	-	-
Consumer and Business Services	-	-	-	-
Administration	-	-	-	-
Legislative	-	-	-	-
Judicial	-	-	-	-
Capital Improvements and Capital Construction	-	-	-	-
Debt Service:				
Principal	41,758	4,314	11,013	-
Interest	34,317	1,644	75,664	17,501
Other Debt Service	925	-	10	-
Total Expenditures	77,000	5,958	86,687	17,501
Excess (Deficiency) of Revenues Over (Under) Expenditures	(72,639)	(2,770)	(64,463)	(17,501)
Other Financing Sources (Uses):				
Transfers from Other Funds	108,718	3,016	18,951	-
Transfers to Other Funds	-	-	-	-
Long-Term Debt Issued	-	1,057	82,578	-
Debt Issuance Premium	10,576	-	97	-
Debt Issuance Discount	-	-	-	-
Refunded Debt Issued	86,603	-	-	-
Refunded Debt Payment to Escrow Agent	(136,470)	-	-	-
Total Other Financing Sources (Uses)	69,427	4,073	101,626	-
Net Change in Fund Balances	(3,212)	1,303	37,163	(17,501)
Fund Balances - Beginning	125,273	94	2,720	17,526
Prior Period Adjustments	(429)	(382)	-	-
Fund Balances - Beginning - As Restated	124,844	(288)	2,720	17,526
Change in Reserve for Inventories	-	-	-	-
Fund Balances - Ending	$ 121,632	$ 1,015	$ 39,883	$ 25

Capital Projects Fund	Permanent Funds		
Capital Projects	Housing Guarantee	Other	Total
$ -	$ -	$ -	$ 250,866
-	-	-	182,386
-	-	-	112,651
5,708	-	-	1,392,721
-	-	-	60,335
-	-	-	105,012
-	-	-	2,347
72	-	294	39,849
8	-	-	7,853
135	-	68	8,392
-	-	4,701	4,701
-	-	-	21,579
688	-	120	69,085
6,611	-	5,183	2,257,777
-	-	-	650,236
-	-	3,956	456,268
-	-	-	288,656
-	-	-	293,831
-	-	243	32,585
-	-	-	6,896
-	-	20	262,801
-	-	-	313,799
-	-	-	2,084
-	-	-	39,855
32,576	-	-	32,576
-	-	-	57,085
-	-	-	131,077
-	-	-	9,465
32,576	-	4,219	2,577,214
(25,965)	-	964	(319,437)
8,178	-	5,559	1,019,713
(472)	(15,500)	(111)	(2,718,669)
24,115	-	-	2,118,705
-	-	-	14,763
(125)	-	-	(125)
-	-	-	119,692
-	-	-	(136,470)
31,696	(15,500)	5,448	417,609
5,731	(15,500)	6,412	98,172
36,857	15,500	9,304	1,045,148
(2,832)	-	-	(5,844)
34,025	15,500	9,304	1,039,304
-	-	-	(399)
$ 39,756	$ -	$ 15,716	$ 1,137,077

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Nonmajor Enterprise Funds

Enterprise Funds account for goods and services provided to the general public on a continuous basis, either when all or most of the cost involved in operating the enterprise is intended to be financed from user charges, or when periodic measurement of the results of operations is appropriate for management control or accountability.

Energy Loan Fund

This fund accounts for activities to provide low-interest loans for renewable energy resource and energy conservation projects. Funding is from the issuance of bonds that are repaid from the interest and principal payments on loans.

Water Resources Fund

This fund accounts for activities to provide low-interest loans for irrigation, drainage, and water systems projects for small municipalities. Capital for this fund is provided from general obligation bonds that are repaid by borrowers.

Business Development Fund

This fund accounts for resources used to finance land, buildings, machinery, and permanent working capital for eligible activities including those determined to diversify an economic base.

Special Public Works Fund

This fund accounts for loans and grants to local governments for construction of infrastructure required to support needed public services. The Special Public Works Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

State Hospitals Fund

This fund accounts for the operations of State hospitals and State operated residential group homes that provide treatment services for specific citizens as well as training and care for developmentally disabled persons. Clinical programs include the adult psychiatric program, the child and adolescent treatment program, the forensic and correctional treatment program, and the geropsychiatric treatment and medical service program.

Liquor Control Fund

This fund accounts for the operation of the Oregon Liquor Control Commission that regulates the sale and use of alcoholic beverages and promotes responsible alcohol use.

Veterans' Home Fund

This fund accounts for activities of the Oregon Veterans' Home, which provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans.

Water Fund

This fund accounts for loans and grants to municipalities to improve compliance with federal and State of Oregon water quality standards. The Water Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

Other Enterprise Funds

This fund is used to account for the sale of goods and services to other than governmental entities through activities not specifically accounted for in another enterprise fund. This includes programs within the following state agencies: the Department of Administrative Services, Legislative Administration Committee, the Judicial Department, the Oregon Facilities Authority, the State Fair and Exposition Center, the Oregon State Treasury, the Department of Corrections, Oregon Corrections Enterprises, the Department of Forestry, the Department of Transportation, and the Oregon Economic and Community Development Department.

Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2004
(In Thousands)

	Energy Loan	Water Resources	Business Development
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ -	$ 3,260	$ 11,789
Cash and Cash Equivalents - Restricted	86	60	-
Investments	-	-	-
Investments - Restricted	-	-	-
Securities Lending Cash Collateral	-	-	-
Accounts and Interest Receivable (net)	2,916	5	51
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Total Current Assets	3,002	3,325	11,840
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	71,691	-	-
Investments - Restricted	-	-	-
Deferred Charges	414	-	-
Advances to Other Funds	20,629	-	-
Net Contracts, Notes and Other Receivables	-	-	-
Loans Receivable	83,983	679	14,836
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	243	-	-
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	-	-
Less Accumulated Depreciation and Amortization	-	-	-
Total Noncurrent Assets	176,960	679	14,836
Total Assets	$ 179,962	$ 4,004	$ 26,676
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	$ 3,342	$ 6	$ 15
Obligations Under Securities Lending	-	-	-
Due to Other Funds	-	-	17
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	86	60	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	44,660	262	-
Trust Funds Payable	3,337	-	-
Deferred Revenue	227	-	-
Compensated Absences Payable	49	-	20
Total Current Liabilities	51,701	328	52
Noncurrent Liabilities:			
Bonds/COPS Payable	110,683	1,386	-
Obligations Under Capital Lease	-	-	-
Arbitrage Rebate Payable	-	-	-
Trust Funds Payable	-	-	-
Advances from Other Funds	-	-	-
Total Noncurrent Liabilities	110,683	1,386	-
Total Liabilities	162,384	1,714	52
Net Assets:			
Invested in Capital Assets, Net of Related Debt	243	-	-
Restricted for Debt Service	17,335	2,290	-
Restricted for Transportation	-	-	-
Restricted for Public Works Projects	-	-	-
Unrestricted	-	-	26,624
Total Net Assets	17,578	2,290	26,624
Total Liabilities and Net Assets	$ 179,962	$ 4,004	$ 26,676

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ 91,688	$ 12,061	$ 25,129	$ 727	$ 48,060	$ 46,123	$ 238,837
-	-	-	-	-	-	146
-	3	-	-	-	-	3
-	-	-	-	1,026	-	1,026
-	-	-	343	-	-	343
4,791	14,590	60	661	2,265	4,564	29,903
-	-	-	-	-	3,832	3,832
-	597	13,139	-	-	9,647	23,383
-	227	131	1	-	116	475
96,479	27,478	38,459	1,732	51,351	64,282	297,948
10,121	-	-	-	2,018	1,484	85,314
3,542	-	-	-	1,336	2,116	6,994
1,616	-	-	-	814	270	3,114
-	-	-	-	100	-	20,729
-	9,469	-	3	-	-	9,472
166,743	-	-	-	71,872	64,471	402,584
-	41	59	600	-	3,385	4,085
-	36,559	12,238	12,548	-	55,522	117,110
-	87	-	-	-	15,527	15,614
-	1,044	-	-	-	568	1,612
-	-	-	40	-	-	40
-	(12,961)	(6,061)	(2,162)	-	(27,459)	(48,643)
182,022	34,239	6,236	11,029	76,140	115,884	618,025
$ 278,501	$ 61,717	$ 44,695	$ 12,761	$ 127,491	$ 180,166	$ 915,973
$ 3,024	$ 2,019	$ 17,943	$ 958	$ 1,585	$ 3,521	$ 32,413
-	-	-	343	-	-	343
92	5,576	6,645	-	40	440	12,810
421	-	-	-	195	381	997
-	-	-	-	-	-	146
-	-	-	-	-	10	10
6,180	-	-	-	2,825	2,503	56,430
698	-	-	-	1,755	56	5,846
-	-	750	-	-	347	1,324
66	5,661	743	16	13	707	7,275
10,481	13,256	26,081	1,317	6,413	7,965	117,594
122,202	-	-	-	61,894	31,300	327,465
-	-	-	-	-	17	17
-	-	-	-	-	54	54
194	-	-	-	385	-	579
-	904	-	-	-	1,441	2,345
122,396	904	-	-	62,279	32,812	330,460
132,877	14,160	26,081	1,317	68,692	40,777	448,054
-	24,769	6,236	11,026	-	16,712	58,986
3,424	-	-	-	665	-	23,714
-	-	-	-	-	22,062	22,062
-	-	-	-	31	-	31
142,200	22,788	12,378	418	58,103	100,615	363,126
145,624	47,557	18,614	11,444	58,799	139,389	467,919
$ 278,501	$ 61,717	$ 44,695	$ 12,761	$ 127,491	$ 180,166	$ 915,973

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2004
(In Thousands)

	Energy Loan	Water Resources	Business Development
Operating Revenues:			
Licenses and Fees	$ 67	$ -	$ -
Federal	-	-	-
Charges for Services	383	2	48
Fines and Forfeitures	228	-	-
Rents and Royalties	-	-	-
Sales	-	-	-
Loan Interest Income	8,079	72	827
Investment Income	600	41	152
Gifts, Grants and Contracts	-	-	-
Other	16	-	4
Total Operating Revenues	9,373	115	1,031
Operating Expenses:			
Salaries and Wages	685	58	285
Services and Supplies	497	34	105
Cost of Goods Sold	-	-	-
Distributions to Other Governments	-	-	-
Special Payments	-	-	250
Bond and COP Interest	7,490	134	-
Other Debt Service	-	-	-
Depreciation and Amortization	-	-	-
Bad Debt Expense	94	-	113
Total Operating Expenses	8,766	226	753
Operating Income (Loss)	607	(111)	278
Nonoperating Revenues (Expenses):			
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	-
Loan Interest Expense	-	-	-
Total Nonoperating Revenues (Expenses)	-	-	-
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	607	(111)	278
Capital Contributions	-	-	-
Special Items	-	-	-
Transfers from Other Funds	-	275	6,500
Transfers to Other Funds	-	-	(217)
Change in Net Assets	607	164	6,561
Net Assets - Beginning	16,886	2,126	20,063
Prior Period Adjustments	85	-	-
Net Assets - Beginning - As Restated	16,971	2,126	20,063
Net Assets - Ending	$ 17,578	$ 2,290	$ 26,624

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ -	$ -	$ 3,277	$ -	$ -	$ -	$ 3,344
-	-	-	-	-	606	606
-	40,528	-	6,157	-	16,150	63,268
-	-	258	-	-	14	500
-	89	-	-	-	2,203	2,292
-	1,014	289,072	-	-	15,965	306,051
9,282	-	-	-	4,078	1,782	24,120
998	-	-	9	439	606	2,845
-	19	-	-	-	-	19
49	777	228	2	-	3,991	5,067
10,329	42,427	292,835	6,168	4,517	41,317	408,112
959	126,371	11,436	213	402	15,176	155,585
373	24,370	30,197	6,291	138	9,007	71,012
-	-	143,937	-	-	10,773	154,710
1,403	-	33,672	-	2,801	790	38,666
-	27	154	-	-	20	451
6,108	-	-	-	3,013	1,398	18,143
146	-	-	-	65	6	217
-	556	665	289	-	1,927	3,437
-	-	-	-	-	30	237
8,989	151,324	220,061	6,793	6,419	39,127	442,458
1,340	(108,897)	72,774	(625)	(1,902)	2,190	(34,346)
-	-	13,666	-	-	-	13,666
-	-	3	-	-	(67)	(64)
-	(60)	-	-	-	(91)	(151)
-	(60)	13,669	-	-	(158)	13,451
1,340	(108,957)	86,443	(625)	(1,902)	2,032	(20,895)
-	-	-	9	-	-	9
-	21,868	-	-	-	-	21,868
33,500	115,881	-	298	9,128	41,806	207,388
(479)	(10,325)	(85,735)	-	(56)	(2,689)	(99,501)
34,361	18,467	708	(318)	7,170	41,149	108,869
111,263	28,968	17,906	11,757	51,629	87,424	348,022
-	122	-	5	-	10,816	11,028
111,263	29,090	17,906	11,762	51,629	98,240	359,050
$ 145,624	$ 47,557	$ 18,614	$ 11,444	$ 58,799	$ 139,389	$ 467,919

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2004
(In Thousands)

	Energy Loan	Water Resources	Business Development
Cash Flows from Operating Activities:			
Receipts from Customers	$ 914	$ 5	$ 48
Receipts from Other Funds For Services	-	-	-
Loan Principal Repayments	23,875	180	3,122
Loan Interest Received	6,877	72	832
Payments to Employees for Services	(685)	(57)	(282)
Payments to Suppliers	(336)	(15)	(33)
Payments to Other Funds for Services	(85)	(19)	(68)
Loans Made	(7,164)	-	(4,473)
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	(240)	-	(246)
Net Cash Provided (Used) in Operating Activities	23,156	166	(1,100)
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	19,246	-	-
Principal Payments on Bonds/COPS	(12,430)	(518)	-
Interest Payments on Bonds/COPS	(7,520)	(127)	-
Bond/COP Issuance Costs	(75)	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Taxes and Assessments Received	-	-	-
Transfers from Other Funds	-	275	6,500
Transfers to Other Funds	-	-	(200)
Net Cash Provided (Used) in Noncapital Financing Activities	(779)	(370)	6,300
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Bond/COP Issuance Costs	-	-	-
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	(158)	-	-
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(158)	-	-
Cash Flows from Investing Activities:			
Purchases of Investments	-	-	-
Proceeds from Sales and Maturities of Investments	-	-	-
Interest on Investments and Cash Balances	325	42	152
Net Cash Provided (Used) in Investing Activities	325	42	152
Net Increase (Decrease) in Cash and Cash Equivalents	22,544	(162)	5,352
Cash and Cash Equivalents - Beginning	49,233	3,482	6,437
Cash and Cash Equivalents - Ending	$ 71,777	$ 3,320	$ 11,789

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ -	$ 42,857	$ 292,447	$ 5,903	$ -	$ 38,165	$ 380,339
-	39	-	-	-	12	51
18,837	-	-	-	5,007	4,582	55,603
9,294	-	-	-	3,723	1,673	22,471
(986)	(125,732)	(11,445)	(211)	(417)	(15,209)	(155,024)
(250)	(22,966)	(164,905)	(5,689)	(50)	(17,784)	(212,028)
(166)	(1,293)	(2,167)	(53)	(118)	(1,042)	(5,011)
(19,138)	-	-	-	(18,694)	(18,586)	(68,055)
(1,372)	-	(32,498)	-	(3,439)	(810)	(38,119)
(229)	(5)	89	1	(11)	380	(261)
5,990	(107,100)	81,521	(49)	(13,999)	(8,619)	(20,034)
13,690	-	-	-	11,785	-	44,721
(8,830)	-	-	-	(3,230)	-	(25,008)
(6,310)	-	-	-	(2,860)	-	(16,817)
(348)	-	-	-	(287)	-	(710)
-	(218)	-	-	-	(362)	(580)
-	(60)	-	-	-	-	(60)
-	-	13,665	-	-	-	13,665
33,500	122,477	-	298	9,128	27,168	199,346
(387)	(5,202)	(85,586)	-	(16)	(4,816)	(96,207)
31,315	116,997	(71,921)	298	14,520	21,990	118,350
-	-	-	-	-	4,585	4,585
-	-	-	-	-	(6,591)	(6,591)
-	-	-	-	-	(1,413)	(1,413)
-	-	-	-	-	(39)	(39)
-	-	-	-	-	(91)	(91)
-	(285)	(746)	(8)	-	(8,521)	(9,718)
-	-	-	-	-	(9)	(9)
-	-	3	-	-	26	29
-	(285)	(743)	(8)	-	(12,053)	(13,247)
(3,861)	-	-	-	(2,614)	(2)	(6,477)
4,408	-	-	-	1,335	7	5,750
1,017	-	-	7	444	609	2,596
1,564	-	-	7	(835)	614	1,869
38,869	9,612	8,857	248	(314)	1,932	86,938
62,940	2,449	16,272	479	50,392	45,675	237,359
$ 101,809	$ 12,061	$ 25,129	$ 727	$ 50,078	$ 47,607	$ 324,297

(continued on next page)

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2004
(In Thousands)
(continued from previous page)

	Energy Loan	Water Resources	Business Development
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	$ 607	$ (111)	$ 278
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	-	-	-
Amortization of Bond/COP Issuance Costs	-	-	-
Amortization of Bond/COP Premium and Discount	164	8	-
Amortization of Deferred Charges	61	-	-
Bad Debt Expense	94	-	113
Interest Income Reported as Operating Revenue	(600)	(41)	(152)
Investment Expense Reported as Operating Expense	-	-	-
Interest Payments Reported as Operating Expense	7,327	126	-
Bond/COP Issuance Costs Reported as Operating Expense	106	-	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(1,210)	4	6
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Deferred Charges	(118)	-	-
Loans Receivable	16,711	180	(1,351)
Accounts and Interest Payable	24	-	4
Due to Other Funds	-	-	-
Due to Other Governments	-	-	(1)
Trust Funds Payable	(240)	-	-
Deferred Revenue	227	-	(1)
Compensated Absences Payable	3	-	4
Total Adjustments	22,549	277	(1,378)
Net Cash Provided (Used) by Operating Activities	$ 23,156	$ 166	$ (1,100)
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	$ -	$ -	$ -
Capital Assets Contributed	-	-	-
Foreclosed Property	-	-	465
Total Noncash Investing and Capital and Related Financing Activities	$ -	$ -	$ 465

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
$ 1,340	$ (108,897)	$ 72,774	$ (625)	$ (1,902)	$ 2,190	$ (34,346)
-	556	665	289	-	1,927	3,437
112	-	-	-	52	74	238
20	-	-	-	5	(132)	65
34	-	-	-	14	14	123
-	-	-	-	-	30	237
(998)	-	-	(9)	(439)	(606)	(2,845)
-	-	-	2	-	-	2
6,088	-	-	-	2,861	1,455	17,857
34	-	-	-	17	1	158
12	506	(21)	(254)	(355)	(924)	(2,236)
-	(121)	-	-	-	25	(96)
-	(80)	(1,429)	-	-	(165)	(1,674)
-	(23)	(87)	-	-	(92)	(202)
-	-	-	-	-	-	(118)
(322)	-	-	-	(13,688)	(13,998)	(12,468)
(154)	671	9,745	547	125	1,285	12,247
-	121	-	-	-	1	122
66	-	-	-	(674)	(29)	(638)
(278)	(9)	-	(1)	(11)	31	(508)
-	-	(140)	-	-	344	430
36	176	14	2	(4)	(50)	181
4,650	1,797	8,747	576	(12,097)	(10,809)	14,312
$ 5,990	$ (107,100)	$ 81,521	$ (49)	$ (13,999)	$ (8,619)	$ (20,034)
$ (19)	$ -	$ -	$ -	$ (5)	$ -	$ (24)
-	-	-	14	-	-	14
-	-	-	-	-	-	465
$ (19)	$ -	$ -	$ 14	$ (5)	$ -	$ 455

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Internal Service Funds

Internal Service Funds account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis.

Central Services Fund

This fund accounts for activities to provide various services to state agencies. These services include accounting, budgeting, personnel, mail and shuttle, purchasing, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund.

Legal Services Fund

This fund accounts for activities of the Department of Justice Attorney General's office to represent and advise the State's elected and appointed officials, agencies, boards, and commissions.

Banking Services Fund

This fund accounts for activities of the Oregon State Treasury to provide banking, investment, and debt management services to state agencies.

Audit Services Fund

This fund accounts for activities of the Secretary of State, Audits Division, to provide independent auditing services to state agencies.

Forestry Services Fund

This fund accounts for activities of the Department of Forestry to operate an equipment and maintenance pool that provides transportation, heavy equipment, and aircraft support for operating programs and other state agencies.

Other Internal Service Funds

This fund accounts for the sale of goods and services to other governmental units through activities not specifically accounted for in another internal service fund.

Combining Balance Sheet
Internal Service Funds
June 30, 2004
(In Thousands)

	Central Services	Legal Services	Banking Services
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 160,047	$ 13,138	$ 2,258
Investments	70,682	-	-
Securities Lending Cash Collateral	13,120	-	-
Accounts and Interest Receivable (net)	66,548	3,477	1,469
Due from Other Funds	-	671	-
Inventories	1,188	576	11
Prepaid Items	258	-	12
Total Current Assets	311,843	17,862	3,750
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	1,602	-	-
Investments - Restricted	5,898	-	-
Deferred Charges	18	-	-
Advances to Other Funds	838	-	-
Net Contracts, Notes and Other Receivables	-	29	-
Capital Assets:			
Land	9,589	-	-
Buildings, Property and Equipment	323,629	1,738	1,625
Construction in Progress	14,949	-	-
Infrastructure	619	-	-
Works of Art and Historical Treasures	141	-	-
Less Accumulated Depreciation and Amortization	(139,148)	(1,394)	(1,595)
Total Noncurrent Assets	218,135	373	30
Total Assets	$ 529,978	$ 18,235	$ 3,780
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	$ 14,214	$ 402	$ 191
Obligations Under Securities Lending	13,120	-	-
Due to Other Funds	8,378	2,293	-
Bonds/COPS Payable	5,898	-	-
Trust Funds Payable	171,478	3	-
Deferred Revenue	17,393	1,258	-
Compensated Absences Payable	2,371	2,236	372
Total Current Liabilities	232,852	6,192	563
Noncurrent Liabilities:			
Bonds/COPS Payable	113,035	-	-
Claims and Judgments Payable	78,180	-	-
Arbitrage Rebate Payable	129	-	-
Contracts, Mortgages and Notes Payable	839	-	-
Advances from Other Funds	426	-	-
Total Noncurrent Liabilities	192,609	-	-
Total Liabilities	425,461	6,192	563
Net Assets:			
Invested in Capital Assets, Net of Related Debt	103,293	345	30
Unrestricted	1,224	11,698	3,187
Total Net Assets	104,517	12,043	3,217
Total Liabilities and Net Assets	$ 529,978	$ 18,235	$ 3,780

Audit Services	Forestry Services	Other	Total
$ 1,633	$ 3,431	$ 3,531	$ 184,038
-	-	-	70,682
-	-	-	13,120
223	64	216	71,997
-	140	23	834
-	328	8	2,111
1	-	10	281
1,857	3,963	3,788	343,063
-	-	-	1,602
-	-	-	5,898
-	-	-	18
-	3	-	841
-	-	27	56
-	-	-	9,589
178	16,896	4,577	348,643
-	-	-	14,949
-	-	-	619
-	-	-	141
(148)	(11,471)	(2,503)	(156,259)
30	5,428	2,101	226,097
$ 1,887	$ 9,391	$ 5,889	$ 569,160
$ 182	$ 184	$ 83	$ 15,256
-	-	-	13,120
-	274	21	10,966
-	-	-	5,898
-	-	-	171,481
-	-	-	18,651
233	118	14	5,344
415	576	118	240,716
-	-	-	113,035
-	-	-	78,180
-	-	-	129
-	-	-	839
-	-	-	426
-	-	-	192,609
415	576	118	433,325
31	5,425	2,075	111,199
1,441	3,390	3,696	24,636
1,472	8,815	5,771	135,835
$ 1,887	$ 9,391	$ 5,889	$ 569,160

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2004
(In Thousands)

	Central Services	Legal Services	Banking Services
Operating Revenues:			
Charges for Services	$ 142,184	$ 42,223	$ 12,190
Rents and Royalties	29,389	11	-
Sales	12,167	102	-
Gifts, Grants and Contracts	4	-	-
Other	6,308	50	-
Total Operating Revenues	190,052	42,386	12,190
Operating Expenses:			
Salaries and Wages	37,448	36,071	5,795
Services and Supplies	123,744	3,841	4,639
Cost of Goods Sold	19,038	-	-
Bond and COP Interest	6,012	-	-
Other Debt Service	11	-	-
Depreciation and Amortization	15,003	161	69
Total Operating Expenses	201,256	40,073	10,503
Operating Income (Loss)	(11,204)	2,313	1,687
Nonoperating Revenues (Expenses):			
Investment Income	1,989	-	-
Gain (Loss) on Disposition of Assets	734	-	-
Loan Interest Expense	(47)	-	-
Total Nonoperating Revenues (Expenses)	2,676	-	-
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	(8,528)	2,313	1,687
Transfers from Other Funds	2,579	-	-
Transfers to Other Funds	(28,521)	(2,293)	-
Change in Net Assets	(34,470)	20	1,687
Net Assets - Beginning	142,193	12,023	1,530
Prior Period Adjustments	(3,206)	-	-
Net Assets - Beginning - As Restated	138,987	12,023	1,530
Net Assets - Ending	$ 104,517	$ 12,043	$ 3,217

Audit Services	Forestry Services	Other	Total
$ 7,891	$ 3,217	$ 2,244	$ 209,949
-	1,300	-	30,700
-	152	-	12,421
-	-	-	4
-	24	1,271	7,653
7,891	4,693	3,515	260,727
4,562	1,363	253	85,492
1,292	2,270	973	136,759
-	-	-	19,038
-	-	-	6,012
-	-	-	11
7	1,558	350	17,148
5,861	5,191	1,576	264,460
2,030	(498)	1,939	(3,733)
-	-	-	1,989
-	147	(9)	872
-	-	-	(47)
-	147	(9)	2,814
2,030	(351)	1,930	(919)
-	92	1,011	3,682
(1,515)	(457)	(1,029)	(33,815)
515	(716)	1,912	(31,052)
957	9,479	3,859	170,041
-	52	-	(3,154)
957	9,531	3,859	166,887
$ 1,472	$ 8,815	$ 5,771	$ 135,835

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2004
(In Thousands)

	Central Services	Legal Services
Cash Flows from Operating Activities:		
Receipts from Customers	$ 7,105	$ 78
Receipts from Other Funds for Services	211,406	43,435
Payments to Employees for Services	(41,041)	(38,936)
Payments to Suppliers	(110,255)	(2,325)
Payments to Other Funds for Services	(7,606)	(679)
Claims Paid	(10,868)	(2)
Other Receipts (Payments)	3,935	(167)
Net Cash Provided (Used) in Operating Activities	52,676	1,404
Cash Flows from Noncapital Financing Activities:		
Transfers from Other Funds	9,230	-
Transfers to Other Funds	(12,179)	-
Net Cash Provided (Used) in Noncapital Financing Activities	(2,949)	-
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Bond/COP Sales	7,002	-
Principal Payments on Bonds/COPS	(7,480)	-
Interest Payments on Bonds/COPS	(5,790)	-
Bond/COP Issuance Costs	(147)	-
Repayments on Advances Made	-	-
Repayments on Advances Received	32	-
Principal Payments on Loans	(350)	-
Interest Payments on Loans	(47)	-
Acquisition of Capital Assets	(22,697)	(49)
Proceeds from Disposition of Capital Assets	979	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(28,498)	(49)
Cash Flows from Investing Activities:		
Purchases of Investments	(19,150)	-
Proceeds from Sales and Maturities of Investments	12,365	-
Interest on Investments and Cash Balances	4,882	-
Interest Income from Securities Lending	121	-
Interest Expense from Securities Lending	(121)	-
Net Cash Provided (Used) in Investing Activities	(1,903)	-
Net Increase (Decrease) in Cash and Cash Equivalents	19,326	1,355
Cash and Cash Equivalents - Beginning	142,323	11,783
Cash and Cash Equivalents - Ending	$ 161,649	$ 13,138

Banking Services	Audit Services	Forestry Services	Other	Total
$ -	$ -	$ -	$ -	$ 7,183
11,519	7,811	4,552	4,116	282,839
(5,807)	(4,569)	(1,365)	(3,440)	(95,158)
(4,763)	(1,283)	(1,914)	(1,336)	(121,876)
(423)	(99)	(93)	(640)	(9,540)
-	-	-	-	(10,870)
(2)	-	-	(24)	3,742
524	1,860	1,180	(1,324)	56,320
-	-	92	1,946	11,268
-	(1,515)	(314)	(1,082)	(15,090)
-	(1,515)	(222)	864	(3,822)
-	-	-	-	7,002
-	-	-	-	(7,480)
-	-	-	-	(5,790)
-	-	-	-	(147)
-	-	3	-	3
-	-	-	-	32
-	-	-	-	(350)
-	-	-	-	(47)
(38)	(21)	(1,282)	(629)	(24,716)
-	-	204	28	1,211
(38)	(21)	(1,075)	(601)	(30,282)
-	-	-	-	(19,150)
-	-	-	-	12,365
-	-	-	-	4,882
-	-	-	-	121
-	-	-	-	(121)
-	-	-	-	(1,903)
486	324	(117)	(1,061)	20,313
1,772	1,309	3,548	4,592	165,327
$ 2,258	$ 1,633	$ 3,431	$ 3,531	$ 185,640

(continued on next page)

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2004
(In Thousands)
(continued from previous page)

	Central Services	Legal Services
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income (Loss)	$ (11,204)	$ 2,313
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	15,003	161
Amortization of Bond/COP Premium and Discount	242	-
Amortization of Deferred Charges	11	-
Interest Payments Reported as Operating Expense	5,790	-
Bond/COP Issuance Costs Reported as Operating Expense	147	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	4,599	(68)
Due from Other Funds	-	325
Inventories	(180)	557
Prepaid Items	(208)	-
Deferred Charges	(18)	-
Net Contracts, Mortgages, Notes and Other Receivables	34	2
Accounts and Interest Payable	2,829	(2,983)
Due to Other Funds	-	(4)
Trust Funds Payable	11,196	(167)
Deferred Revenue	17,120	1,199
Claims and Judgments Payable	7,295	-
Compensated Absences Payable	20	69
Total Adjustments	63,880	(909)
Net Cash Provided (Used) by Operating Activities	$ 52,676	$ 1,404
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	$ 3,196	$ -
Capital Assets Transferred from Governmental Funds	6,562	-
Capital Assets Transferred to Governmental Funds	(21,055)	-
Total Noncash Investing and Capital and Related Financing Activities	$ (11,297)	$ -

Banking Services	Audit Services	Forestry Services	Other	Total
$ 1,687	$ 2,030	$ (498)	$ 1,939	$ (3,733)
69	7	1,558	350	17,148
-	-	-	-	242
-	-	-	-	11
-	-	-	-	5,790
-	-	-	-	147
(608)	(81)	3	557	4,402
-	-	(33)	(1)	291
3	-	231	47	658
(11)	-	-	-	(219)
-	-	-	-	(18)
-	-	-	-	36
(604)	(93)	55	(2,583)	(3,379)
-	-	(144)	(609)	(757)
-	-	-	(24)	11,005
-	-	8	-	18,327
-	-	-	-	7,295
(12)	(3)	-	(1,000)	(926)
(1,163)	(170)	1,678	(3,263)	60,053
$ 524	$ 1,860	$ 1,180	$ (1,324)	$ 56,320
$ -	$ -	$ -	$ -	$ 3,196
-	-	-	-	6,562
-	-	-	-	(21,055)
$ -	$ -	$ -	$ -	$ (11,297)

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Fiduciary Funds – Combining Pension Trust and Private Purpose Trust

Pension Trust Funds

Pension Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the retirement system.

Public Employees Defined Benefit Pension Fund

This fund accounts for the activities of the defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. The plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238 and Internal Revenue Code Section 401(a).

Individual Account Program Defined Contribution Pension Fund

This fund accounts for the activities of the defined contribution portion of the Oregon Public Service Retirement Plan (OPSRP). Beginning January 1, 2004, PERS member contributions, account earnings and losses, as well as administrative costs of the plan are reflected in this fund. The OPSRP is administered by the Public Employees Retirement System.

Oregon Public Service Retirement Plan Defined Benefit Pension Fund

This fund accounts for the activities of the defined benefit pension program of the OPSRP. Public employees hired on or after August 29, 2003 as well as inactive PERS members who return to employment following a six-month or greater break in service participate in the OPSRP pension program. The OPSRP is administered by the Public Employees Retirement System.

Postemployment Healthcare Fund

This fund accounts for the transactions, assets, liabilities, and net assets related to medical and hospital insurance coverage contracted on behalf of retired members of the Public Employees Retirement System.

Deferred Compensation Fund

This fund accounts for the activities of the Deferred Compensation Program, an Internal Revenue Code Section 457 compensation plan, offered to employees of the State and administered by the Public Employees Retirement System.

Private Purpose Trust Funds

Private Purpose Trust Funds account for all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Common School Fund

This fund accounts for the principal and interest derived from the sale of specific timber, land, and property escheated to the State. The earnings must be used for educational purposes.

Other Private Purpose Trust Funds

This fund accounts for all other private purpose trust funds, the principal and earnings of which benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2004
(In Thousands)

	Public Employees Defined Benefit Pension	Individual Account Program Defined Contribution Pension
ASSETS		
Cash and Cash Equivalents	$ 2,459,543	$ 20,198
Receivables:		
Employer Contributions	81,093	-
Employee Contributions	-	89,149
Interest and Dividends	139,070	194
Investment Sales	536,446	791
From Other Funds	1,993	30,386
Total Receivables	758,602	120,520
Investments:		
Fixed Income	12,744,117	18,692
Equity	25,319,714	35,750
Real Estate	1,805,418	2,681
Alternative Equity	4,241,050	6,299
Mutual Funds	-	-
Restricted Investment Contracts	-	1,094
Total Investments	44,110,299	64,516
Securities Lending Cash Collateral	4,364,198	14,200
Inventories	9	-
Prepaid Items	2,699	13
Capital Assets (net of $3,687 accumulated depreciation):		
Land	836	-
Buildings, Property and Equipment	7,823	808
Total Assets	51,704,009	220,255
LIABILITIES		
Accounts and Interest Payable	2,085,551	3,438
Obligations Under Securities Lending	4,364,198	14,200
Due to Other Funds	35,858	-
Trust Funds Payable	156,120	-
Bonds/COPS Payable	50,894	1,104
Total Liabilities	6,692,621	18,742
NET ASSETS		
Held in Trust for:		
Employees' Pension Benefits	45,011,388	201,513
Employees' Postemployment Healthcare Benefits	-	-
Individuals, Organizations and Other Governments	-	-
Total Net Assets	$ 45,011,388	$ 201,513

Oregon Public Service Retirement Plan Defined Benefit Pension	Postemployment Healthcare	Deferred Compensation	Total
$ 548	$ 17,693	$ 1,134	$ 2,499,116
1,135	10,767	-	92,995
-	-	-	89,149
-	351	-	139,615
13	1,424	67	538,741
-	5,472	-	37,851
1,148	18,014	67	898,351
31	33,708	-	12,796,548
60	64,468	-	25,419,992
4	4,835	-	1,812,938
11	11,358	-	4,258,718
-	-	672,428	672,428
8,753	-	-	9,847
8,859	114,369	672,428	44,970,471
266	16,782	534	4,395,980
-	-	-	9
105	-	-	2,817
-	-	-	836
6,541	-	-	15,172
17,467	166,858	674,163	52,782,752
6,101	4,847	260	2,100,197
266	16,782	534	4,395,980
1,756	140	97	37,851
-	-	-	156,120
8,839	-	-	60,837
16,962	21,769	891	6,750,985
505	-	-	45,213,406
-	145,089	-	145,089
-	-	673,272	673,272
$ 505	$ 145,089	$ 673,272	$ 46,031,767

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2004
(In Thousands)

	Public Employees Defined Benefit Pension	Individual Account Program Defined Contribution Pension
ADDITIONS		
Contributions:		
Employer	$ 3,164,219	$ -
Employee	185,693	201,306
Other Sources	23,763	-
Total Contributions	3,373,675	201,306
Investment Income:		
Net Appreciation in Fair Value of Investments	6,327,231	759
Interest, Dividends and Other Investment Income	1,074,112	346
Total Investment Income	7,401,343	1,105
Less Investment Expense	219,149	40
Net Investment Income	7,182,194	1,065
Other Income	330	542
Total Additions	10,556,199	202,913
DEDUCTIONS		
Pension Benefits	2,510,376	-
Death Benefits	8,610	-
Contributions Refunded	42,193	-
Healthcare Premium Subsidies	-	-
Administrative Expenses	24,874	1,400
Total Deductions	2,586,053	1,400
Change in Net Assets Held in Trust For:		
Employees' Pension Benefits	7,970,146	201,513
Employees' Postemployment Healthcare Benefits	-	-
Individuals, Organizations and Other Governments	-	-
Net Assets - Beginning	37,041,242	-
Net Assets - Ending	$ 45,011,388	$ 201,513

Oregon Public Service Retirement Plan Defined Benefit Pension	Postemployment Healthcare	Deferred Compensation	Total
$ 1,934	$ 43,720	$ -	$ 3,209,873
-	72,895	56,479	516,373
-	-	-	23,763
1,934	116,615	56,479	3,750,009
2	3,663	74,237	6,405,892
13	18,105	6,952	1,099,528
15	21,768	81,189	7,505,420
-	255	1,894	221,338
15	21,513	79,295	7,284,082
-	7	579	1,458
1,949	138,135	136,353	11,035,549
-	-	40,378	2,550,754
-	-	-	8,610
-	-	-	42,193
-	107,187	-	107,187
1,444	2,378	759	30,855
1,444	109,565	41,137	2,739,599
505	-	-	8,172,164
-	28,570	-	28,570
-	-	95,216	95,216
-	116,519	578,056	37,735,817
$ 505	$ 145,089	$ 673,272	$ 46,031,767

Combining Statement of Fiduciary Net Assets
Private Purpose Trust Funds
June 30, 2004
(In Thousands)

	Common School	Other	Total
ASSETS			
Cash and Cash Equivalents	$ 18,404	$ 32,656	$ 51,060
Receivables:			
Interest and Dividends	737	-	737
Investment Sales	2,707	-	2,707
Accounts	336	234	570
From Other Funds	1,097	178	1,275
Total Receivables	4,877	412	5,289
Investments:			
Fixed Income	120,313	1,115	121,428
Equity	-	1,326	1,326
Real Estate	5,135	-	5,135
Mutual Funds	717,117	-	717,117
Total Investments	842,565	2,441	845,006
Cash and Securities Held in Trust	682	97	779
Securities Lending Cash Collateral	31,576	10,879	42,455
Inventories	22	-	22
Advance to Other Funds	400	-	400
Net Contracts, Notes and Other Receivables	122	239	361
Conservatorship and Custodial Assets	-	4,158	4,158
Loans Receivable	67	522	589
Capital Assets (net of accumulated depreciation):			
Land	789	14	803
Buildings, Property and Equipment	249	-	249
Infrastructure	2,376	-	2,376
Works of Art and Historical Treasures	25	-	25
Total Assets	902,154	51,418	953,572
LIABILITIES			
Accounts and Interest Payable	32,691	3	32,694
Obligations Under Securities Lending	31,576	10,879	42,455
Due to Other Funds	660	2,143	2,803
Trust Funds Payable	170,422	1,634	172,056
Compensated Absences Payable	180	13	193
Contracts, Mortgages and Notes Payable	-	628	628
Total Liabilities	235,529	15,300	250,829
NET ASSETS			
Held in Trust for:			
Individuals, Organizations and Other Governments	666,625	36,118	702,743
Total Net Assets	$ 666,625	$ 36,118	$ 702,743

Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Year Ended June 30, 2004
(In Thousands)

	Common School	Other	Total
ADDITIONS			
Investment Income:			
Net Appreciation in Fair Value of Investments	$ 107,012	$ -	$ 107,012
Interest, Dividends and Other Investment Income	13,321	731	14,052
Total Investment Income	120,333	731	121,064
Less Investment Expense	177	86	263
Net Investment Income	120,156	645	120,801
Licenses and Fees	897	-	897
Charges for Services	90	-	90
Fines and Forfeitures	16	-	16
Rents and Royalties	3,171	-	3,171
Sales	54	-	54
Gifts, Grants and Contracts	126	344	470
Other Income	117	11,634	11,751
Transfers from Other Funds	15,197	1,088	16,285
Total Additions	139,824	13,711	153,535
DEDUCTIONS			
Administrative Expenses	7,321	7,183	14,504
Payments in Accordance with Trust Agreements	13,304	2,602	15,906
Transfers to Other Funds	5,833	3,457	9,290
Total Deductions	26,458	13,242	39,700
Change in Net Assets Held in Trust For:			
Individuals, Organizations and Other Governments	113,366	469	113,835
Net Assets - Beginning	553,259	36,292	589,551
Prior Period Adjustments	-	(643)	(643)
Net Assets - Beginning - As Restated	553,259	35,649	588,908
Net Assets - Ending	$ 666,625	$ 36,118	$ 702,743

Agency Fund

The Agency Fund accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2004
(In Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
ASSETS				
Cash and Cash Equivalents	$ 78,817	$ 2,271,760	$ 2,254,524	$ 96,053
Investments	-	21,762	144	21,618
Cash and Securities Held in Trust	1,431,651	590,807	652,424	1,370,034
Accounts and Interest Receivable	5,161	2,300	290	7,171
Net Contracts, Notes and Other Receivables	134,194	379,741	416,606	97,329
Conservatorship and Custodial Assets	42	3	-	45
Receivership Assets	66,721	29,127	223	95,625
Total Assets	$ 1,716,586	$ 3,295,500	$ 3,324,211	$ 1,687,875
LIABILITIES				
Accounts and Interest Payable	$ 7	$ 96,393	$ 96,390	$ 10
Due to Other Governments	1,811	2,393	1,811	2,393
Trust Funds Payable	1,714,768	2,668,001	2,697,297	1,685,472
Total Liabilities	$ 1,716,586	$ 2,766,787	$ 2,795,498	$ 1,687,875

Statistical Section

Schedule 1

GENERAL GOVERNMENTAL[1]
REVENUES BY SOURCE, EXPENDITURES BY FUNCTION, AND OTHER FINANCING SOURCES AND USES

Last Ten Fiscal Years
(In Thousands)

	2004	2003	2002	2001
Revenues by Source:				
Taxes	$ 6,303,389	$ 5,836,554	$ 5,728,923	$ 5,901,345
Licenses and Fees	312,609	286,619	275,439	333,358
Federal	4,233,648	4,160,747	3,767,499	3,383,853
Charges for Services	214,485	234,459	232,711	222,600
Fines and Forfeitures	116,191	91,349	81,899	90,661
Rents and Royalties	7,244	6,015	6,331	7,671
Investment Income	76,594	98,185	90,423	175,939
Sales	111,905	110,945	112,287	75,377
Donations and Grants	12,409	138,599	116,152	106,476
Contributions to Permanent Funds	4,701	-	-	-
Tobacco Settlement Proceeds	72,065	85,255	86,524	-
Pension Bond Debt Service Assessments	21,579	-	-	-
Other	288,622	244,775	280,478	261,158
Total Revenues	$ 11,775,441	$ 11,293,502	$ 10,778,666	$ 10,558,438
Expenditures by Function:				
Education	$ 3,484,917	$ 2,900,408	$ 3,347,415	$ 3,183,306
Human Resources	4,269,562	4,347,675	4,402,681	3,926,443
Public Safety	842,487	783,712	778,997	762,298
Economic and Community Development	298,654	319,732	281,481	275,564
Natural Resources	484,410	508,367	460,214	431,932
Transportation	1,266,474	1,184,102	1,016,600	1,081,340
Consumer and Business Services	338,971	325,140	323,653	271,885
Administration	663,545	652,000	511,415	447,809
Legislative	25,181	29,637	26,718	31,993
Judicial	239,157	204,908	231,580	212,879
Revenue and Collections	-	-	-	-
Capital Outlay	32,576	63,726	81,681	121,422
Debt Service	260,970	207,754	122,537	73,506
Total Expenditures	$ 12,206,904	$ 11,527,161	$ 11,584,972	$ 10,820,377
Other Financing Sources (Uses):				
Transfers from Other Funds	$ 1,292,842	$ 1,691,017	$ 3,300,534	$ 2,624,217
Transfers to Other Funds	(3,413,477)	(1,670,815)	(3,438,615)	(2,746,653)
Net Debt Proceeds	2,224,414	702,297	292,304	142,329
Leases Incurred	-	107	7	-
Other	-	-	-	-
Total Other Financing Sources (Uses)	$ 103,779	$ 722,606	$ 154,230	$ 19,893

[1] Includes all governmental funds (general, special revenue, debt service, capital projects, and permanent funds)

2000	1999	1998	1997	1996	1995
$ 6,110,160	$ 5,579,519	$ 5,095,593	$ 4,452,085	$ 4,707,049	$ 3,846,355
352,353	310,615	291,703	257,618	275,104	251,592
3,137,946	3,017,941	2,732,897	2,737,138	2,622,274	2,171,824
207,162	223,287	173,043	177,224	137,721	217,158
85,654	69,966	53,369	36,751	43,535	68,715
8,091	7,133	6,832	6,792	8,690	6,522
128,160	123,171	137,219	145,776	115,703	96,356
94,287	67,671	59,049	87,690	64,556	76,129
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
310,110	267,347	223,013	229,486	256,765	153,202
$ 10,433,923	$ 9,666,650	$ 8,772,718	$ 8,130,560	$ 8,231,397	$ 6,887,853
$ 3,123,368	$ 2,630,392	$ 2,817,786	$ 2,304,252	$ 2,308,948	$ 1,916,445
3,576,521	3,341,097	2,893,283	2,826,898	2,844,028	2,444,912
688,629	652,760	570,219	533,181	436,165	340,128
219,565	217,494	205,662	246,847	249,818	176,418
402,735	369,058	311,007	327,784	281,263	342,777
1,072,694	1,121,734	1,081,604	1,026,580	945,036	972,023
253,353	233,475	227,828	222,988	204,753	186,598
471,360	591,200	444,912	532,906	438,883	266,411
24,697	26,950	18,897	22,545	17,092	21,256
204,536	182,930	174,052	163,949	151,152	111,240
-	-	-	-	-	153,573
90,396	276,511	168,103	179,275	64,044	25,756
49,876	79,228	94,428	77,723	65,756	61,131
$ 10,177,730	$ 9,722,829	$ 9,007,781	$ 8,464,928	$ 8,006,938	$ 7,018,668
$ 2,407,598	$ 1,298,357	$ 1,400,321	$ 1,632,170	$ 1,923,004	$ 758,656
(2,578,061)	(1,359,677)	(1,496,440)	(1,625,033)	(1,942,027)	(829,259)
358,726	179,413	77,806	193,086	269,696	10,687
854	1,519	382	25	604	279
-	-	-	123	19	1,046
$ 189,117	$ 119,612	$ (17,931)	$ 200,371	$ 251,296	$ (58,591)

Schedule 2

NET GENERAL OBLIGATION DEBT PER CAPITA

Last Ten Fiscal Years
(In Thousands)

Fiscal Year	Total General Obligation Debt [4]	Less Debt Payable from Enterprise Revenues[1]	Less Debt Service Fund[2]	Net General Obligation Debt	Population[3]	Net General Obligation Debt Per Capita
1995	$ 4,267,729	$ 3,794,306	$ -	$ 473,423	3,184	$ 149
1996	3,745,104	3,298,026	-	447,078	3,247	138
1997	3,336,916	2,889,375	-	447,541	3,304	135
1998	2,997,606	2,522,815	-	474,791	3,352	142
1999	2,479,010	1,987,907	60,184	430,919	3,394	127
2000	2,429,380	1,855,860	10,497	563,023	3,437	164
2001	2,282,942	1,730,676	6,391	545,875	3,472	157
2002	2,386,884	2,318,169	4,431	64,284	3,505	18
2003	2,312,788	2,149,558	2,720	160,510	3,540	45
2004	4,364,485	2,016,631	39,883	2,307,971	3,579	645

[1] Beginning in 2002, includes debt of Oregon University System, reported in an enterprise fund in accordance with the new reporting model (formerly reported in college and university funds).

[2] Amount available for repayment of general obligation bonds; data prior to FY 1999 is not available.

[3] Source: Oregon Department of Administrative Services, Office of Economic Analysis; based on census 2000 data.

[4] In 2004, $2 billion of pension general obligation bonds were issued.

Schedule 3

LEGAL DEBT MARGIN

As of June 30, 2004

	Legal Debt Limit[1,2]	Amount Outstanding[3]	Debt Margin
General Obligation Bonds			
Oregon University System	$ 4,580,566,464	$ 734,445,000 [4]	$ 3,846,121,464
Pollution Control	260,000,000	49,552,704	210,447,296
Pension Obligation Bonds	3,053,710,977	2,083,960,000	969,750,977
Veterans' Welfare	24,429,687,813	881,584,212	23,548,103,601
Alternate Energy	1,526,855,488	155,342,582	1,371,512,906
Water Resources	4,580,566,465	1,648,296	4,578,918,169
State Highway	3,053,710,977	930,000	3,052,780,977
Elderly and Disabled Housing	1,526,855,488	247,655,902	1,279,199,586
Oregon Opportunity Bonds	1,526,855,488	209,366,719	1,317,488,769
General Purpose	50,000	-	50,000
Oregon School Bond Guarantee	1,526,855,488	-	1,526,855,488
Public Education Buildings Seismic Refit	610,742,195	-	610,742,195
Emergency Service Buildings Seismic Refit	610,742,195	-	610,742,195
State Power Development	4,580,566,465	-	4,580,566,465
Forest Rehabilitation [5]	572,570,808	-	572,570,808
Total General Obligation Bonds	$ 52,440,336,311	$ 4,364,485,415	$ 48,075,850,896
Revenue Bonds [6]			
Highway User Tax	$ 2,228,000,000	$ 250,100,209	$ 1,977,899,791
Economic Development Bond Bank	400,000,000	193,101,357	206,898,643
Single & Multi-Family Housing Programs	2,000,000,000	1,432,775,408	567,224,592
State Fair & Exposition Center	10,000,000	1,530,000	8,470,000
Transportation Infrastructure Bank	200,000,000	-	200,000,000
Public Employees Retirement System	- [7]	44,300,000	- [7]
Oregon Health and Science University	- [8]	555,894,000	- [8]
Lottery Revenue Bonds [9]	- [10]	553,336,154	- [10]
Total Revenue Bonds	$ 4,838,000,000	$ 3,031,037,128	$ 2,960,493,026
Appropriation Bonds			
Department of Administrative Services	$ - [11]	$ 466,213,454	$ - [11]
Total Appropriation Bonds	$ - [11]	$ 466,213,454	$ - [11]

[1] Oregon State Treasury, Debt Management Division.

[2] Based on the January 1, 2003 True Cash Value (TCV) of $305,371,097,660.

[3] Excludes refunded and defeased bonds.

[4] Includes $4,045,000 of Community College Workforce Development outstanding bonds.

[5] Issuance of Forest Rehabilitation bonds is limited by statute to $750,000 per year.

[6] Revenue bonds schedule does not crossfoot as some columns are not applicable to all items.

[7] Debt was assumed by Public Employees Retirement System as a guarantor; debt limit and debt margin are not applicable.

[8] The Uniform Revenue Bond Act authorizes Oregon Health and Science University to issue revenue bonds, but does not establish a specific legal debt limit amount.

[9] Consolidated total for all lottery-backed revenue bonds.

[10] The legal debt limit for lottery revenue bonds is based on the requirement that unobligated net lottery proceeds be at least 400 percent of the maximum annual debt service on outstanding bonds, including the estimated debt service on any proposed new bonds.

[11] The authorization to issue appropriation bonds allowed for an issuance that would raise net proceeds of not more than $450 million. Since the authorization was not stated in terms of a maximum debt limit, the legal debt limit and debt margin are not applicable.

Schedule 4

REVENUE BOND COVERAGE
LOTTERY REVENUE BONDS

Last Ten Fiscal Years
(In Thousands)

Fiscal Year	Gross Revenues	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995	$ 664,193	$ 401,467	$ 262,726	$ 3,060	$ 6,940	$ 10,000	26.27
1996	695,121	415,743	279,378	4,420	5,577	9,997	27.95
1997	721,992	429,629	292,363	4,640	5,356	9,996	29.25
1998	716,336	427,938	288,398	4,875	5,124	9,999	28.84
1999	726,693	430,139	296,554	5,670	5,955	11,625	25.51
2000	761,913	456,855	305,058	13,190	17,459	30,649	9.95
2001	794,787	473,729	321,058	16,535	21,775	38,310	8.38
2002	820,646	489,470	331,176	27,295	23,441	50,736	6.53
2003	860,767	511,310	349,457	27,860	21,391	49,251	7.10
2004	883,446	502,100	381,346	36,410	26,718	63,128	6.04

Note: The State also has revenue bonds that are primarily paid using loan repayments. Schedules for these bonds are not presented because an association of net revenues with debt service requirements is not meaningful.

Schedule 5

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION BONDED DEBT[1] TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES

Last Ten Fiscal Years
(In Thousands)

Fiscal Year	Principal	Interest[2, 4]	Total Debt Service	Total General Governmental Expenditures[3]	Ratio of Debt Service to General Governmental Expenditures
1995	$ 26,695	$ 8,728	$ 35,423	$ 7,018,668	0.50%
1996	20,335	7,199	27,534	8,006,938	0.34%
1997	22,485	6,429	28,914	8,464,928	0.34%
1998	18,250	5,504	23,754	9,007,781	0.26%
1999	17,035	4,872	21,907	9,722,829	0.23%
2000	10,800	4,066	14,866	10,177,730	0.15%
2001	9,800	4,286	14,086	10,820,377	0.13%
2002	9,130	3,840	12,970	11,584,972	0.11%
2003	7,870	5,392	13,262	11,527,161	0.12%
2004	13,470	79,044	92,514	12,206,904	0.76%

[1] Excludes general obligation bonds reported in enterprise funds.

[2] Excludes bond issuance costs.

[3] Includes all governmental funds (general, special revenue, debt service, capital projects, and permanent funds).

[4] In 2004, $2 billion of pension general obligation bonds were issued and interest payments began.

Schedule 6

OREGON'S TEN LARGEST PRIVATE EMPLOYERS

As of April 2002

Firm Name	Primary Industry	Average Number of Employees
The Kroger Company (Fred Meyer)	Department store	13,300
Providence Health System	Integrated health system	12,800
Intel Corporation	Semiconductors and related devices	12,000
Safeway Stores, Inc.	Grocery store	11,500
Oregon Health and Science University	Hospital, medical and surgical	10,100
Legacy Emanuel Hospital & Health	Hospital, medical and surgical	7,200
Wal Mart Stores, Inc.	Department store	7,200
Kaiser Permanente	Offices and clinics of doctors of medicine	7,100
Hewlett-Packard Company	Semiconductors and related devices	5,200
Roseburg Forest Products Company	Plywood and veneer, softwood	4,600

Source: Oregon Economic and Community Development Department

Schedule 7

COMPARATIVE POPULATION GROWTH
OREGON AND UNITED STATES

Last Ten Calendar Years
(In Thousands)

Year	Oregon[1]	Percent Change	United States[2]	Percent Change
1994	3,121	1.99%	263,126	1.23%
1995	3,184	2.02%	266,278	1.20%
1996	3,247	1.98%	269,394	1.17%
1997	3,304	1.76%	272,647	1.21%
1998	3,352	1.45%	275,854	1.18%
1999	3,394	1.25%	279,040	1.15%
2000	3,437	1.27%	282,125	1.11%
2001	3,472	1.02%	284,797	0.95%
2002	3,505	0.95%	288,369	1.25%
2003	3,542	1.06%	290,810	0.85%

Sources:

[1] Oregon Department of Administrative Services, Office of Economic Analysis; based on 2000 census data.

[2] U.S. Bureau of Census; based on 2000 census data.

Schedule 8

COMPARATIVE PER CAPITA INCOME

Last Ten Calendar Years

Year	Oregon[1]	Percent Change	United States[2]	Percent Change	Oregon as Percent of United States
1994	$ 21,187	4.7%	$ 22,340	3.7%	94.8%
1995	22,362	5.6%	23,255	4.1%	96.2%
1996	23,270	4.1%	24,270	4.4%	95.9%
1997	24,385	4.8%	25,412	4.7%	96.0%
1998	25,446	4.4%	26,893	5.8%	94.6%
1999	26,248	3.2%	27,880	3.7%	94.1%
2000	27,760	5.8%	29,770	6.8%	93.3%
2001	28,175	1.5%	30,472	2.4%	92.5%
2002	28,668	1.7%	30,832	1.2%	93.0%
2003	28,953	1.0%	31,459	2.0%	92.0%

Sources:

[1] Calculated based on population figures from the Oregon Department of Administrative Services, Office of Economic Analysis and personal income figures from the U.S. Bureau of Economic Analysis.

[2] Calculated based on population figures from the U.S. Bureau of Census and personal income figures from the U.S. Bureau of Economic Analysis.

Schedule 9

COMPARATIVE EMPLOYMENT AND UNEMPLOYMENT RATES

Last Ten Calendar Years
(Annual Averages, In Thousands)

Year	Civilian Labor Force		Unemployment		Unemployment Rate		Oregon Rate as Percent of United States Rate
	Oregon[1]	United States[2]	Oregon[1]	United States[2]	Oregon[1]	United States[2]	
1994	1,650	131,056	90	7,996	5.5%	6.1%	90%
1995	1,653	132,304	80	7,404	4.8%	5.6%	86%
1996	1,718	133,943	102	7,236	5.9%	5.4%	109%
1997	1,728	136,297	101	6,739	5.8%	4.9%	118%
1998	1,765	137,673	99	6,210	5.6%	4.5%	124%
1999	1,761	139,368	100	5,880	5.7%	4.2%	136%
2000	1,803	140,863	88	5,655	4.9%	4.0%	123%
2001	1,794	141,815	114	6,742	6.4%	4.8%	133%
2002	1,834	144,863	138	8,378	7.5%	5.8%	129%
2003	1,859	146,510	152	8,774	8.2%	6.0%	137%

Sources:

[1] Oregon Employment Department

[2] U.S. Bureau of Labor Statistics

Schedule 10

OREGON EXPORTS TO THE WORLD
By Industry Classification

Last Ten Calendar Years
(In Millions)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
High Technology	$ 5,596	$ 5,741	$ 4,911	$ 7,517	$ 6,588	$ 5,397	$ 5,110	$ 4,731	$ 4,294	$ 2,601
Wood Products	600	567	573	785	712	795	1,195	1,215	1,404	1,433
Transportation	1,116	966	617	894	1,176	699	491	371	358	412
Other Manufacturing	768	684	665	924	672	524	472	443	348	276
Metals	325	311	329	383	370	483	468	348	347	326
Plastics and Rubber Products	79	80	53	63	84	68	77	78	75	55
Printing and Publishing	37	31	40	31	26	32	33	33	29	35
Agriculture	1,574	1,520	1,482	1,543	1,559	1,667	2,025	2,356	2,375	1,925
Fisheries	34	35	34	32	26	20	27	31	40	40
Other Non-Manufacturing	227	152	198	276	232	157	171	168	168	143
Total Exports to the World	$ 10,356	$ 10,087	$ 8,902	$ 12,448	$ 11,445	$ 9,842	$ 10,069	$ 9,774	$ 9,438	$ 7,246

Source: Oregon Department of Administrative Services, Office of Economic Analysis

Schedule 11

MISCELLANEOUS STATISTICS

Date Entered Union [1]	1859
Form of Government	Representative form of Government with three Branches: Executive, Legislative and Judicial
Land Area:	
Square Miles [1]	96,002
Inland Water Area (square miles) [1]	1,129
Coastline (miles) [1]	296
Population [2]	3,541,500
Miles of State Highway [3]	7,500
Higher Education:	
Community Colleges:	
Number of Campuses [1]	17
Number of Students [5]	377,596
State Universities:	
Number of Campuses [1]	7
Number of Regular Term Students [6]	107,626
Recreation:	
Number of State Parks [4]	233
Area of State Parks (acres) [1]	95,500
Area of State Forests (acres) [7]	780,000

Sources:

[1] Oregon Blue Book 2003-2004

[2] Oregon Department of Administrative Services, Office of Economic Analysis

[3] Oregon Department of Transportation

[4] Oregon Parks and Recreation Department

[5] Oregon Department of Community Colleges and Workforce Development

[6] Oregon University System

[7] Oregon Department of Forestry

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